Supreme Court, U.S.
FILED

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No. _____

In the Supreme Court of the United States

LIMAGRAIN GENETICS CORPORATION,
Petitioner,

v.

MIDWEST OILSEEDS, INC.,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Eighth Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

The United States Court of Appeals for the Eighth Circuit ("Court of Appeals"), citing state practice and its perceived Constitutional obligation, affirmed summary judgment by adjudicating fact issues which were never considered by the district court and which were otherwise triable to a jury. The Court of Appeals' action raises several interrelated important questions:

1. Whether the Court of Appeals violated the Seventh Amendment, and disregarded *Byrd v. Blue Ridge Rural Elec. Cooperative, Inc.*, 356 U.S. 525, 537-40 (1958) and its progeny, in holding that a federal court may determine facts otherwise required to be tried to a jury, merely because state courts have categorized the issue as "one of law"?

2. Whether the Court of Appeals violated Rule 56 of the Federal Rules of Civil Procedure by determining facts otherwise required to be tried to a jury and based on inadmissible evidence, merely because state courts have categorized the issue as "one of law"?

3. Whether a federal Court of Appeals may affirm or grant summary judgment on grounds not presented in the district court without complying with the requirements of Rule 56 of the Federal Rules of Civil Procedure?

INTERESTED PARTIES

Petitioner Limagrain Genetics Corporation is a wholly-owned subsidiary of Limagrain Genetics Inc., a corporation of Canada, which is a wholly-owned subsidiary of Limagrain Agro-Industrie, whose equity is owned by Groupe Limagrain Holding, a farmer's cooperative, Pau Euralis Cooperative and Unigrains, none of which are registered companies.

Respondent Midwest Oilseeds, Inc. was, and is still believed to be, a privately held company. It is commonly-owned with a multitude of other related companies, but all are believed to be privately held.

TABLE OF CONTENTS

QUESTIONS PRESENTED i

INTERESTED PARTIES ii

TABLE OF CONTENTS iii

TABLE OF AUTHORITIES v

CITATION TO OPINIONS BELOW 1

STATEMENT OF JURISDICTION 1

LAW INVOLVED 1

JURISDICTION BELOW 2

STATEMENT OF THE CASE 2

The Factual Background to the Litigation 4

The Litigation and District Court Decision 4

The Eighth Circuit Court of Appeals Decision 7

REASONS FOR GRANTING THE PETITION 11

The Court of Appeals Created an Unconstitutional Exception to the Seventh Amendment Right to a Jury Trial 13

The Court of Appeals Violated Fed. R. Civ. P. 56 . 21

A Federal Appellate Court Must Comply With Fed. R.Civ. P. Rule 56 If Affirming Or Granting Summary Judgment On Grounds Not Presented in the District Court 22

CONCLUSION 24

APPENDIX

Appendix A
United States Court of Appeals for the Eighth Circuit Order Denying Petition for Rehearing and for Rehearing *En Banc*, dated November 24, 2004 . . . . 1a

Appendix B
United States Court of Appeals for the Eighth Circuit Opinion, dated October 14, 2004 . . . . . 3a

Appendix C
United States District Court for the Southern District of Iowa Central Division Memorandum Opinion and Order, dated November 2, 2002 . . . . . 33a

Appendix D
Excerpts of Brief of Appellant filed in the United States Court of Appeals for the Eighth Circuit, dated June 16, 2003 . . . . . 54a

Appendix E
Excerpts of Reply Brief of Appellant filed in the United States Court of Appeals for the Eighth Circuit, dated August 19, 2003 . . . . . 60a

Appendix F
Rule 56. Summary Judgment 66a

TABLE OF AUTHORITIES

Cases

Anderson v. Liberty Lobby, Inc.,
477 U.S. 242 (1986) 21

Aurora Bus. Park Assocs., L.P. v. Michael Albert, Inc.,
548 N.W.2d 153 (Iowa 1996) 4

Byrd v. Blue Ridge Rural Elec. Cooperative, Inc.,
356 U.S. 525 (1958) 11, 13, 19, 20

Celotex Corp. v. Catrett,
477 U.S. 317 (1986) 5, 23

Chandris, Inc. v. Latsis,
515 U.S. 347 (1995) 18

City of Davenport v. The Shewry Corporation,
674 N.W.2d 79 (Iowa 2004) 4

City of Monterey v. Del Monte Dunes at Monterey, Ltd.,
526 U.S. 687 (1999) 18

Daubert v. Merrell Dow Pharmaceuticals,
509 U.S. 579 (1993) 6, 8, 9, 21

Eller v. Newell,
159 Iowa 711, 141 N.W. 52 (Iowa 1913) 13

Elzey v. City of Winterset,
154 N.W. 901 (Iowa 1915) 15

Erie R.R. v. Tompkins,
304 U.S. 64 (1938) 9, 12, 13, 19, 20

Gasperini v. Center for Humanities, Inc.,
518 U.S. 415 (1996) 20

Harper & Row Publishers, Inc. v. Nation Enterprises,
471 U.S. 539, 560 (1985) 18

Kealy v. Harter,
682 F.2d 198 (8th Cir. 1982) 14

Kelly v. Fejervary,
111 Iowa 693, 83 N. W. 791 (Iowa 1900) 13

Lind Building Corp. v. Pacific Bellevue Developments,
776 P.2d 977 (Wash. App. 1989) 15

Monsanto Co . v. McFarling,
363 F.3d 1336 (Fed. Cir. 2004) 16

Pennsylvania State Police v. Suders,
124 S.Ct. 2342 (2004) 11

Reeves v. Sanderson Plumbing Products, Inc.,
530 U.S. 133 (2000) 21

Rohlin Constr. Co. v. City of Hinton,
476 N.W.2d 78, 79 (Iowa 1991) 4, 5, 14-17

S.O.G.-San Ore-Gardner v. Missouri Pacific RR. Co.,
658 F.2d 562 (8th Cir. 1981) 15

Simler v. Conner,
372 U.S. 221 (1963) 20

Sinclair v. United States,
279 U.S. 263 (1929) 19

South Florida Water Management Dist. v. Miccosukee Tribe of Indians,
541 U.S. 95, 1546 (2004) 11

TSC Industries, Inc. v. Northway, Inc.,
426 U.S. 438 (1976) 18

United States v. Gaudin,
515 U.S. 506 19

Other Authorities

Fed. R. Civ. P. 56 . . . . . *passim*
Sup.Ct. R. 10 12
U.S. Const. Amend. VII . . . . . *passim*

CITATION TO OPINIONS BELOW

The district court's opinion is reported at 231 F.Supp.2d 942 (App. 33a-53a). The Court of Appeals' opinion is reported at 387 F.3d 705 (App. 3a-32a). The denial of a rehearing and rehearing en banc is reported at 2004 U.S. App. LEXIS 24569 (App. 1a-2a).

STATEMENT OF JURISDICTION

The Court of Appeals entered judgment on October 14, 2004. (App. 3a-32a). Petitioner timely filed a petition for rehearing and rehearing en banc, which was denied on November 24, 2004. (App. 1a-2a). This Court has jurisdiction under 28 U.S.C. § 1254(1).

LAW INVOLVED

The Seventh Amendment to the Constitution provides:

> In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.

Federal Rule of Civil Procedure 56 is reproduced at App. 66a.

JURISDICTION BELOW

The United States District Court for the Southern District of Iowa had diversity jurisdiction under 28 U.S.C. §1332, because Petitioner was incorporated and had its principal

place of business in Indiana, Respondent was incorporated and had its principal place of business in Iowa, and the matter in controversy exceeded $75,000.

STATEMENT OF THE CASE

Arising from a dispute as to the reasonableness of a liquidated damages clause in a contract, this case concerns the important Constitutional question of the scope of the federal courts' authority in a diversity jurisdiction common law case to limit litigants' Seventh Amendment rights by withholding jury trials and deciding factual issues otherwise triable to a jury, on the grounds that the state courts characterize those issues as one "of law."

It also concerns the question of whether federal courts can consider unsworn expert reports and unverified factual allegations, make credibility assessments, and determine facts in summary judgment proceedings under Rule 56 of the Federal Rules of Civil Procedure, because the state law suggests that the issue is one of "law." A related question is whether Rule 56 allows an appellate court to determine summary judgment *sua sponte* and *de novo* on appeal without affording litigants any notice that the court was considering summary judgment on grounds never addressed in the district court and when the litigants never had any opportunity to present their evidence.

Summary judgment is a standard feature in federal litigation, and much of it involves diversity jurisdiction wherein state law provides the rule of decision. The issue presented in this case therefore has substantial importance. The decision below creates a substantial exception to this Court's well-established precedent interpreting the Seventh Amendment, and, if followed by other Courts of Appeals, will

eviscerate the right to a jury trial in any proceeding where state courts characterize a common law right to be one of "law." Absent this Court's review, the Court of Appeals' ruling will erode the Seventh Amendment, and subvert established and important aspects of federal practice.

The Factual Background to the Litigation

The parties had been working together in the soybean breeding business for many years. In 1986, they executed a short-lived agreement for joint development and marketing of new soybeans ("Agreement"). The Agreement was terminated in 1989. The Agreement included a provision that "[t]he ... Seed Purchase Agreement, a copy of which is attached, shall apply to all Midwest [Respondent] developed seeds and the principles of such shall be incorporated into the Licensing Agreements . . . " In turn, the referenced Seed Purchase Agreement, which was a form document that had been created for entirely different purposes, prohibited a "purchaser" from using Respondent's seeds for breeding, and included a purported liquidated damages clause:

> Purchaser agrees . . . that any use of Midwest Soybean Seeds in violation of this agreement, will cause a minimum damage to Midwest Oilseeds, Inc. of $10.00 per bushel for each bushel so used. . . .

The Litigation and District Court Decision

Respondent sued Petitioner on November 29, 2000, claiming that Petitioner had breached the Agreement by breeding with, and licensing, Petitioner's own seeds. Respondent argued that the Agreement's prohibition against breeding with Respondent's seeds applied even to Petitioner's own seeds if Respondent's seeds formed any part of the

genetic background of Petitioner's seeds, regardless of the number of generations in the past, and regardless whether they had been legally and properly acquired, and even though the Agreement licensed Petitioner to breed with those seeds. Further, Respondent demanded damages of $10.00/bushel for each bushel that Petitioner had ever made or licensed, arguing that Petitioner was bound by the purported liquidated damage clause.

The litigation progressed, and, in due course, the parties filed cross-motions for summary judgment to determine whether the Agreement in fact prohibited Petitioner from breeding with its own seeds. Respondent also moved for summary judgment dismissing Petitioner's affirmative defenses and counterclaims. Finally, Petitioner moved for summary judgment to dismiss Respondent's damage claim based on the asserted $10.00/bushel liquidated damages clause on the grounds that the Petitioner was not a "Purchaser," and the clause was unenforceable.

As background, all the parties and the Courts agreed that Iowa law governed the contract, and that Iowa's substantive law determining the enforceability of liquidated damage clauses in agreements was set forth in *Rohlin Constr. Co. v. City of Hinton*, 476 N.W.2d 78, 79 (Iowa 1991). That precedent, following the Restatement (Second) of Contracts § 356, held that liquidated damage clauses are enforceable only if "reasonable" in view of the (1) "the anticipated or actual loss caused by the breach"; and (2) "'the difficulty of proof of loss."[1] In moving for summary judgment, Petitioner

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[1] *See also City of Davenport v. The Shewry Corporation*, 674 N.W.2d 79, 85 (Iowa 2004); *Aurora Bus. Park Assocs., L.P. v. Michael Albert, Inc.*, 548 N.W.2d 153, 156-57 (Iowa 1996). The Restatement (Second) of Contracts § 356 appears to be followed in most jurisdictions.

acknowledged the fact-intensive nature of this test, but argued that certain undisputed procedural and substantive considerations rendered the liquidated damage clause *per se* unreasonable. (*See* footnote 8, *infra*). Respondent replied with alleged facts demonstrating disputed issues for trial as to whether the clause was reasonable under the *Rohlin* standard. Respondent did not request summary enforcement of the damage clause.

On the eve of trial, the district court granted summary judgment in favor of Respondent on all material issues. It held that Petitioner had breached the Agreement, and dismissed Petitioner's affirmative defenses and all counterclaims, except the district court permitted Petitioner to go to trial on its claim that Respondent breached the Agreement. With respect to the liquidated damages clause, the district court did not address either the parties' fact contentions or the governing *Rohlin* criteria. Instead, the district court ruled, *sua sponte*, that the liquidated damages clause was reasonable as a matter of law, on the sole ground that the "parties negotiated the terms of the contract in 1986. If CEI [Petitioner] objected to the clause ... CEI had an opportunity to negotiate a different term." (App. 49a). The district court, thus, adjudicated the reasonableness of the liquidated damages solely on the basis of the only fact that was clearly undisputed – that Petitioner had signed the Agreement.[2]

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[2] The district court could not have summarily enforced the damages clause on any other basis. Respondent had never moved for summary judgment and the district court did not provide any notice of any intent to consider summary judgment of enforceability. Hence, Petitioner never had any opportunity to respond to any summary enforcement of the damages clause based on the *Rohlin* criteria or on any other basis, and any summary judgment in such circumstances would have contradicted Fed. R. Civ. P. Rule 56. *See Celotex Corp. v. Catrett*, 477 U.S. 317, 326 (1986) (federal courts "possess the power to enter summary judgments *sua sponte*,

Petitioner, thereafter, moved for reconsideration, but the Court re-affirmed its ruling.

It is noted that the record on the liquidated damage clause did not and could not have included all the evidence that Petitioner could otherwise have submitted to challenge the "reasonableness" of the damages clause. Petitioner had no reason to introduce all such evidence or respond to Respondent's evidence presented in opposition to Petitioner's motion, because Respondent had not moved for summary judgment, and Petitioner's motion was narrow. Then, after the district court *sua sponte* held the damages clause was reasonable because Petitioner had signed the Agreement, any further evidence on the issue was irrelevant.

Not only did the district court not adjudicate any facts relative to the damages clause (except that Petitioner had signed the Agreement), but, after summarily enforcing the damages clause, the district court denied as "moot" two pending motions *in limine* which Petitioner had filed to exclude any testimony at trial of Respondent's purported expert, Blake Seiker. Respondent produced an "expert report" by Mr. Seiker and had noticed him to testify at trial on the reasonableness of the $10/bushel liquidated damage clause. Petitioner had moved to exclude the testimony on the grounds that Mr. Seiker's opinions reflected in the expert report were without any foundation, based on plainly false assumptions of facts and law, and otherwise failed to meet the standards of expert testimony established by this Court in *Daubert v. Merrell Dow Pharmaceuticals*, 509 U.S. 579 (1993) and its progeny. Those motions to exclude Mr. Seiker's evidence remain unadjudicated.

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so long as the losing party was on notice that she had to come forward with all of her evidence.").

After the district court's actions, very few issues remained. At the subsequent trial, in view of the summary judgment rulings, the court instructed the jury to find only how many bushels of seeds Petitioner had marketed, which the court then multiplied by $10 to arrive at the damage figure. Petitioner presented to the jury its counterclaim that Respondent breached the Agreement by improperly selling jointly developed soybeans. The jury found that Respondent had breached the Agreement, and awarded Petitioner damages equal to $0.43 per bushel. (App. 22a n.11).

On post-trial motions, however, the district court reversed his earlier rulings allowing Petitioner's claims to be presented to the jury, and granted Respondent judgment as a matter of law on Petitioner's remaining counterclaim. The Court also summarily added additional "bushels" to Respondent's damage claim, and, ultimately entered final judgment against Petitioner in the amount of $40,892,354, based on the $10/bushel liquidated damages clause.

If the jury had the opportunity to determine Respondent's actual damages, there is at least some likelihood that it would have awarded about the same amount as it had awarded Petitioner, or $0.43 per bushel. Thus, approximately $38 million of the $41 million judgment was the direct result of enforcing the purported liquidated damage clause.

The Eighth Circuit Court of Appeals Decision

Petitioner timely appealed to the Eighth Circuit Court of Appeals, challenging most of the district court rulings, including the district court's *sua sponte* grant of summary judgment that the putative liquidated damages clause was applicable to Petitioner and that it was reasonable as a matter of law. Petitioner argued that the district court's only basis

for granting summary judgment – that the parties had signed the Agreement – was legally erroneous, and that the reasonableness of the damage clause must be remanded for trial, citing such facts as were available on the limited record, even if Petitioner was not entitled to summary judgment of unenforceability. (App. 54a-59a; *see also* footnote 8, *infra*).

Respondent answered that the "district court ruled correctly on this issue," and that "liquidated damages were appropriate." It recited the same fact allegations that were argued in the district court against Petitioner's motion, relying mainly on the unsworn opinions in its alleged expert's report, but supplemented with averments for which there was no citation to the record. Respondent also disputed the facts the Petitioner had cited in its opening brief to demonstrate triable fact issues if the district court's ruling was reversed, on the grounds that those facts were, for example, "simply untrue" and others were "unclear [because] the agreement was signed 17 years ago." Respondent never suggested that it was requesting a revised summary judgment, or that it would be appropriate for the Court of Appeals to determine the issue by a *de novo* review.

In the reply brief, Petitioner responded that the Respondent had not defended the district court's actual ruling (that the clause was reasonable because the parties had signed the Agreement); that Petitioner disputed Respondent's factual allegations on multiple grounds; and concluded that the "court could not resolve fact issues relating to reasonableness on summary judgment." (App. 60a-64a). Petitioner particularly noted the lack of any citation to record support for Respondent's averments, and that the unsworn report of Mr. Seiker was inadmissible and was the subject of pending unresolved *Daubert* challenges which were never considered by the district court. (App. 60a-62a, 64a).

On October 14, 2004, the Court of Appeals issued a decision affirming the judgment. With respect to the liquidated damages clause, the Court of Appeals did not mention the district court's untenable rationale. Instead, the Court of Appeals quoted Iowa court opinions which stated that the enforceability of liquidated damage clauses was a "matter of law," and then cited *Erie R.R. v. Tompkins*, 304 U.S. 64, 78 (1938) for the proposition federal courts were required to follow that state practice. (App. 20a n.10).

Neither party had cited *Erie R.R. v. Tompkins*, or suggested that the Court of Appeals could engage in a *de novo* review of facts. Nevertheless, based on its interpretation of *Tomkins* and Iowa practice, the Court of Appeals denied a jury trial, and undertook *sua sponte* to itself analyze the purported facts governing the reasonableness of the damages clause. Based on that fact-finding, the Court determined that the damages clause was reasonable.

The Court of Appeals began by noting that Respondent "presented the following evidence," which included the "testimony" of "Blake Seiker, a consulting certified public accountant with over a decade of experience in the soybean business." (App. 22a).[3] The Court of Appeals then adopted the purported expert's unsworn opinions which had been recited in his unsworn expert report, without addressing Petitioner's pending *Daubert* motions, or even acknowledging

[3] The only "testimony" by Mr. Sieker cited in the briefs was that the $10/bushel figure was reasonable "based on the fact that [Mr. Sieker] saw an agreement initialed by people." In other words, Mr. Sieker concluded, as did the district court, that the liquidated damages clause was reasonable simply because Petitioner signed the Agreement, a justification so erroneous that neither the Court of Appeals nor Respondent cited it directly.

that it was making credibility determinations and relying on unsworn opinions to resolve disputed facts. (App. 22a, 24a).

To shore up Mr. Seiker's debatable expert opinions, the Court of Appeals cited other purported facts, but these were unsupported by any record. *Id.* Indeed, some had never been suggested by the parties or anyone else.[4]

At the same time, the Court of Appeals ignored most of the facts and law cited in Petitioner's briefs. (*Cf.*, footnote 8, *infra*). After reciting the record, which the Court of Appeals itself referred to as "[Respondent's] evidence" (App. 22a) and Respondent's "explan[ations]" (App. 24a), the Court of Appeals concluded that Respondent had "advanced uncontested facts showing the $10 amount was reasonable." (App. 25a).

The Court of Appeals had never given any notice that it was considering making fact findings on its own, and, thus, never presented any opportunity for Petitioner to prepare record support for challenging the factual allegations asserted by Respondent.

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[4] For example, the Court of Appeals stated that

> "[Petitioner] also argues [Respondent] charged Pioneer, another competitor, only $ .25 to $ .40 per bushel for first generation seeds and nothing for second generation seeds. In fact, Pioneer may have paid $1.80, but that is beside the point. Under the Pioneer contract, [Respondent] also received exclusive right to use Pioneer's germplasm."

(App. 23a). In fact, there is no record suggesting Pioneer paid "$1.80," or that Respondent "received exclusive right to use Pioneer's germplasm." Thus, the Court of Appeals inferred non-existent facts.

Petitioner timely moved for reconsideration. Petitioner argued that the decision presented a question of exceptional importance in that it had "created a new and unprecedented basis for summary judgment that is contrary to Rule 56(c)" and contrary to the Court's precedent when it summarily resolved material disputed issues. Petitioner urged that the reasonableness of a liquidated damages clause must be determined by a fact-finder (in this case a jury had been requested), based on admissible evidence, and that remand for trial was required, citing, *inter alia*, *South Florida Water Management Dist. v. Miccosukee Tribe of Indians*, 541 U.S. 95, 1546 (2004) (vacating the district court's grant of summary judgment where "[t]he record before us leads us to believe that some factual issues remain unresolved"), and *Pennsylvania State Police v. Suders*, 124 S.Ct. 2342, 2357 (2004) (same).

The Court of Appeals rejected the petition for rehearing by the panel or en banc on November 24, 2004 without any opinion. (App. 1a-2a).

REASONS FOR GRANTING THE PETITION

The petition presents an important question under the Seventh Amendment concerning the right of federal courts to withhold trial by jury by categorizing fact-finding as an issue of law. The Court of Appeals squarely and erroneously misinterpreted this Court's precedent and the Seventh Amendment in holding that federal litigants have no right to a jury trial if state courts categorize an issue to be one of "law." This Court should promptly review that holding, because the ruling eviscerates fundamental Constitutional rights, distorts the interface between state law and federal practice, and directly contradicts this Court's well-established precedent reflected in *Byrd v. Blue Ridge Rural Elec.*

Cooperative, Inc., 356 U.S. 525, 537-40 (1958), and its progeny. The Court should also review the Court of Appeals decision, because the same error is likely to recur, given that the decision rests on an interpretation of *Erie R.R. v. Tompkins* and applies to all cases where state law provides the rule of decision.

Moreover, the Court of Appeals relied on the same state-law characterization of the issue as "one of law," to obviate the requirements of Rule 56 of the Federal Rules of Civil Procedure and the well-established precedent of this Court prohibiting fact-finding on summary judgment, and affording litigants the due process of an opportunity to respond before adverse action is taken.

The courts below were wrong in summarily imposing a $41 million penalty upon Petitioner. As consistently held by this Court, the Seventh Amendment, not state law, governs the rights of federal litigants to a jury trial, and Rule 56 prohibits summary determination of facts, particularly without notice or any opportunity to present evidence. [5]

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[5] Petitioner has limited its petition to the lower courts' determination that the liquidated damages clause applies to Petitioner and is reasonable as a matter of law. Petitioner respectfully believes that the Court of Appeals incorrectly ruled on the other issues as well, because, like the district court, the Court of Appeals ignored entire sections of the parties' Agreement and arguments raised by Petitioner. Nevertheless, these other issues are not pressed before this Court in view of Rule 10 of the Rules of the Supreme Court ("[a] petition for a writ of certiorari is rarely granted when the asserted error consists of . . . misapplication of a properly stated rule of law.")

The Court of Appeals Created an Unconstitutional Exception to the Seventh Amendment Right to a Jury Trial

The Court of Appeals interpreted Iowa state law to mandate that the reasonableness of a liquidated damage clause be determined by a court without a jury "as a matter of law." (App. 20a).[6] The Court of Appeals then interpreted *Erie R.R. v. Tompkins*, 304 U.S. 64, 78 (1938), to require the federal courts to withhold jury trials for any issue that state law characterizes as one of law, including the reasonableness of the liquidated damage clause here. (App. 20a n.10). The Court of Appeals fundamentally erred, as detailed below. First, the reasonableness inquiry requires determination of facts. Second, the inquiry is typical of mixed question of fact and law that the Seventh Amendment requires be tried to a jury. Third, this Court's decisions in *Byrd* and in its progeny require that, *Tompkins* notwithstanding, litigants be afforded their Seventh Amendment right to a jury trial even if state law provides the rule of decision and state practice forbids jury trials for such issues. Thus, the Court of Appeals denied Petitioner's right to a jury trial under the Seventh Amendment, and established a dangerous precedent that should be reviewed given the prevalence of cases in the

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[6] It is at least questionable whether Iowa law actually requires courts to determine facts relating to enforceability of a liquidated damages clause if a jury trial is requested. In opinions issued about a century ago, but never modified, distinguished or expressly overruled, the Iowa Supreme Court held that the enforceability of a liquidated damage clause is triable to a jury. *Eller v. Newell*, 159 Iowa 711, 141 N.W. 52, 54 (Iowa 1913) (the "ruling . . . may have been prejudicial in depriving plaintiffs of the right to trial by jury, at least of the issue with respect to liquidated damages."); *Kelly v. Fejervary*, 111 Iowa 693, 83 N. W. 791, 793 (Iowa 1900).

federal courts where state law provides the rule of decision and where state practices vary.

a. The Fact-Intensive Inquiry: There can be no question that the Iowa test for "reasonableness" is fundamentally dependent on findings of fact. For example, the *Rohlin* (or Restatement) test requires consideration of facts such as the actual damage or potential damage caused by the breach of contract, a factual determination whether the parties had specifically negotiated the clause as a measure of damages, the facts evidencing any purported difficulty of proving actual loss, and similar fact-based inquiries.[7] Unlike certain issues of construction of contracts, the determination of reasonableness of a liquidated damages clause is not susceptible to resolution within the four corners of the contract. The test for reasonableness as adopted by Iowa demands subsidiary factual findings that can only be established by a factual record. Thus, in the *Rohlin* case, the parties presented evidence at trial on the subsidiary findings of fact necessary to the analysis. *Rohlin, supra,* 476 N.W.2d at 80. "Reasonableness" of the liquidated damages clause is not unlike the determination of the measure of actual damages suffered as the result of a breach, which is always determined by a jury.

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[7] The Eighth Circuit itself has previously described such subsidiary findings in the Restatement (2d) test for reasonableness to be factual findings. *Kealy v. Harter*, 682 F.2d 198, 200 (8th Cir. 1982). Certainly, it is the prerogative of the jury to assess damages in a common law action. It is impossible to construct a basis for arguing that the jury shall determine damages, but is not entitled to determine actual damage or potential damage caused by the breach of contract in the context of determining whether a liquidated damage clause is an impermissible penalty, or determining the purported difficulty of proving actual damages.

Indeed, even if the Court of Appeals properly recounted the facts and they were "uncontested" (App. 25a), the jury on the entire and complete record – consistent with the reasonableness standard applicable under Iowa law – might reasonably find that the damage clause does not reflect actual or potential damages caused by any breach of contract and that there is actually no difficulty of proving actual loss, in view of other evidence.[8]

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[8] Petitioner cited the following reasons why the liquidated damages clause was unreasonable:

First, the parties never even discussed, much less specifically agreed that $10/bushel was reasonable as liquidated damages. It was simply a number Respondent unilaterally included in the Agreement's attachment, which had been designed for other purposes. The lack of negotiations is evidence that the figure is unreasonable. *S.O.G.-San Ore-Gardner v. Missouri Pacific RR. Co.*, 658 F.2d 562, 570 (8th Cir. 1981) (damages clause unenforceable because parties had not negotiated it as a "reasonable forecast of just compensation."); *Elzey v. City of Winterset*, 154 N.W. 901, 904 (Iowa 1915) (record must show what loss was in the minds of the parties when they entered into the liquidated damages clause); *Lind Building Corp. v. Pacific Bellevue Developments*, 776 P.2d 977, 982 (Wash. App. 1989) (following Restatement (2d) of Contracts § 356; holding liquidated damages clause unenforceable as a matter of law, because a "valid liquidated damages clause requires the contracting parties to make an estimate of just compensation for the damages to be anticipated from a breach").

Second, *Rohlin* struck the agreed-upon damage clause in the parties' contract because it was not validly justified by any contemporaneous study or analysis of potential damages. Here, similarly, Respondent cannot explain how the number was derived, much less justify it by any contemporaneous study or data. See also *Elzey v. City of Winterset*, 154 N.W. 901, 904 (Iowa 1915) (record must show what loss was in the minds of the parties when they

entered into the liquidated damages clause).

Third, the same $10/bushel applies without discrimination as to the nature of the alleged breach. For example, breeding with a seed invokes the same penalty whether the seed is 100% Respondent seed, or the seed includes only 1% of Respondent's germplasm. The "one-size-fits-all" nature of the clause suggests that it is unreasonable. *Monsanto Co . v. McFarling*, 363 F.3d 1336, 1350 (Fed. Cir. 2004) (and cases cited therein).

Fourth, as in *Rohlin*, the $10/bushel was objectively unreasonable, in view of both then-anticipated and actual damages.

- In 1986 and throughout the relevant period, Respondent did not itself sell soybeans, but licensed its soybeans to others in return for so-called "research fees" or royalties for use of the materials. In such circumstances, the only appropriate estimate of damages to Respondent is the research fee income that Respondent would lose as a result of an alleged breach. The loss that could be anticipated in 1986, or at any time thereafter, was significantly less than the liquidated damages asserted here. In 1986, and during the relevant period, the typical royalty per bushel of Respondent seed was about $0.45 to $0.90 per bushel, from which production and marketing costs, and volume discounts, have to be subtracted to determine damages. The $10/bushel could not be supported as an expected actual loss.
- The clause, by its plain terms, does not relate to the liability situation here. The damages clause is written with the assumption that the Respondent seeds were improperly multiplied or used for breeding. Here, Petitioner had the right to use the Respondent seeds for breeding, and the damages involve later generations of Petitioner seeds. That demonstrates that $10/bushel had no reference to actual damages here.
- After the Agreement was signed, Respondent licensed Pioneer Hi-Bred International, the world's largest seed company and a major competitor, to breed with Respondent seeds in return for fees of $0.25/bushel for first generation seeds and nothing for

second generation seeds. Thus, under the Pioneer Agreement, Pioneer had the right to breed second generation lines from the Respondent parent for free, even though Respondent now demands $10.00/bushel for the same activities by Petitioner.

- In 1992, after the 1986 Agreement was terminated, Respondent licensed to Petitioner, under a separate agreement, the right to breed with other Respondent lines. The 1992 Agreement provided a "standard contract" research fee of only $0.60 or $0.30/bushel for all lines that Petitioner would generate using Respondent lines as parents.
- Respondent granted other companies the right to breed with its soybeans, in return for obtaining the rights to breed with the other company's soybeans. The other party was not required to pay Respondent any royalties for use of the Respondent soybeans for breeding. Respondent did not suffer a loss of "germplasm." Respondent gave away all its vaunted "germplasm" to its competitors for breeding without any restrictions.

Finally, the $10/bushel clause fails the final "difficulties of proof of loss" *Rohlin* requirement. Soybean breeders necessarily keep accurate records of their breeding. Respondent had no problems tracing any of its seeds through Petitioner or Petitioner's licensees. Further, the $10/bushel is applied solely to "each bushel so used." That requires Respondent to identify and calculate all the "breaching" bushels of seed, and then the clause applies the $10.00/bushel penalty. Yet, once Respondent identifies the "breaching" seed, there is no reason that the actual damages are not to be applied for that "breaching" seed. Consequently, the liquidated damages clause does not abate any "difficulties of proof of loss." The clause simply and improperly demands that damages be calculated at $10/bushel rather than by the actual damages per bushel. Other courts, which like Iowa follow the Restatement, generally hold that this, by itself, is sufficient to render liquidated damages clauses unenforceable. *Phillips v. Phillips*, 820 S.W.2d 785, 789 (Tex. 1991); *Burlington Northern & Santa Fe Rwy Co. v. Dakota Valley Mills*, No. A3-00-145, 2002 WL 1483881, *5 (D.N.D. Mar. 27, 2002).

b. Mixed Question of Fact and Law Which the Seventh Amendment Requires Be Tried to the Jury: The determination of whether the liquidated damages clause is "an amount that is reasonable" requires the application of a legal standard to the facts. Even though Iowa courts have referred to this inquiry as being one of "law," the actual required inquiry is more commonly called a "mixed question of law and fact." In any event, this Court has held the Seventh Amendment requires all such mixed questions of fact and law to be resolved by juries.[9] The "mixed question" arises repeatedly in federal courts, which are always tried to a jury. For example, whether the claims of a United States patent are invalid for obviousness has been consistently termed a

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[9] This Court's precedent has established, for example, that the question of "whether a particular taking actually furthers a public use" is "a mixed question of fact and law" that must be determined by a jury, *City of Monterey v. Del Monte Dunes at Monterey, Ltd.*, 526 U.S. 687, 720-21 (1999); "who is a 'member of a crew,' and therefore who is a 'seaman,' is a mixed question of law and fact [and] a question for the jury," *Chandris, Inc. v. Latsis*, 515 U.S. 347, 369 (1995); and the materiality inquiry in securities action "may be characterized as a mixed question of law and fact," and involving as it does "delicate assessments of the inferences a 'reasonable [decisionmaker]' would draw from a given set of facts and the significance of those inferences to him, . . . [is] peculiarly one for the trier of fact," *TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. 438, 450 (1976). In *TSC Industries*, the Court noted that "the jury's unique competence in applying the 'reasonable man' standard is thought ordinarily to preclude summary judgment in negligence cases." See, also, *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 560 (1985) ("Fair use is a mixed question of law and fact."). Similarly here, the reasonableness of the putative liquidated damages is a mixed question of law and fact that is left to the jury.

"question of law," which must be tried to a jury because of the underlying fact inquires.

The Seventh Amendment allows a court to withdraw from a jury only such issues as are a pure question of law. A "pure question of law" is one that does "not depend upon the probative value of evidence." *United States v. Gaudin*, 515 U.S. 506, 507 (1995) (citing *Sinclair v. United States*, 279 U.S. 263, 298 (1929)). The reasonableness inquiry here does not involve a pure question of law. The admitted fact-finding of the Court of Appeals preclude any suggestion that this case did not involve the probative value of evidence.

c. Federal Law, Not State Law, Governs the Right to a Jury Trial: Even in diversity jurisdiction cases, the allocation of responsibility between judge ("law") and jury ("fact") is governed by federal rather than state law. *Byrd, supra*, 356 U.S. at 537-40 (1958). In *Byrd*, the governing state law provided that the question whether a party was a statutory employee under the state's Workmen's Compensation Act was to be determined by the court and not a jury. The respondent in *Byrd* contended that the federal court was bound under *Erie R. Co. v. Tompkins*, to follow the same procedure, which is exactly the decision of the Court of Appeals in this case. This Court, however, held that, notwithstanding the state law, the petitioner was entitled to a jury determination of the issue:

> The federal system is an independent system for administering justice to litigants who properly invoke its jurisdiction. An essential characteristic of that system is the manner in which, in civil common-law actions, it distributes trial functions between judge and jury and, under the influence -- if not the command -- of the Seventh Amendment, assigns the decisions of disputed questions of fact to the jury. * * * We think

> that in the circumstances of this case the federal court should not follow the state rule. It cannot be gainsaid that there is a strong federal policy against allowing state rules to disrupt the judge-jury relationship in the federal courts.

(*Byrd, supra*, 356 U.S. at 537; internal citations omitted). *See also Simler v. Conner*, 372 U.S. 221, 222 (1963) (even where a federal court is applying the substantive law of a state, federal law determines whether cause of action is legal, and not equitable, and thus guaranteeing litigant a jury trial under Seventh Amendment); *Gasperini v. Center for Humanities, Inc.*, 518 U.S. 415, 432 (1996).

There can be no question that Respondent's suit for damages for breach of contract was "at common law," that juries determine damages in such common law actions, and that the issue of the reasonableness of the damage clause turns on facts which are normally triable to a jury. Thus, there can be no question that the reasonableness of the damage clause should have been tried to the jury.

In short, the Court of Appeals erred in holding that *Erie R.R. v. Tompkins* required federal courts to invoke state practices to deny federal litigants' their Constitutional right to a jury trial. The Court of Appeals erred in summarily imposing a penalty of some $38 million upon a farmers' cooperative beyond the amount that would likely have measured any possible actual damages, while denying Petitioner any opportunity to present the underlying facts to a jury. This is not the type of justice that the founders of our government intended when they introduced the Sixth and Seventh Amendments as the country's essential bulwarks of civil liberty. If the essential guarantee of the Seventh Amendment and this Court's established precedent are to be

eroded by judicial fact-finding simply because a state court might have decided the issue without a jury, such a fundamental choice should at least be upon full review of this Court.

The Court of Appeals Violated Fed. R. Civ. P. Rule 56

Rule 56 of the Federal Rules of Civil Procedure does not include any exception for a federal court to determine fact issues on summary judgment simply because the disputed issue involves state common law which that state law categorizes as a law issue. This Court has invariably required that courts strictly comply with the requirements of Rule 56, regardless of the source of the underlying law. *Reeves v. Sanderson Plumbing Products, Inc.*, 530 U.S. 133, 150 (2000) ("the court must draw all reasonable inferences in favor of the nonmoving party, and it may not make credibility determinations or weigh the evidence. . . . . Thus, although the court should review the record as a whole, it must disregard all evidence favorable to the moving party that the jury is not required to believe. ") (internal citations omitted); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 250-251 (1986).

The Court of Appeals has now purported to create an exception to Rule 56, based on its determination that state law would entrust the relevant fact-intensive inquiry to a court. On the basis of that asserted authority, the Court of Appeals has violated Rule 56 and *Reeves*. The Court of Appeals drew inferences in favour of Respondent and against Petitioner, determined the credibility of Respondent's purported expert, weighed the evidence, ignored *Daubert,* and considered only Respondent's evidence while disregarding Petitioner's

evidence in summarily imposing a penalty of some $38 million against Petitioner.

However, Rule 56 does not include any exception in cases where state law provides the rule of decision and had characterized the issue as one of "law." Nor has this Court ever suggested such an exception. The Court of Appeals decision conflicts with the text of Rule 56, and with the decisions of this Court.

Again, if such an major exception to Rule 56 and this Court's precedent is to created, it should only be upon careful consideration of this Court.

A Federal Appellate Court Must Comply With Fed. R. Civ. P. Rule 56 If Affirming Or Granting Summary Judgment On Grounds Not Presented In The District Court

Even if the Seventh Amendment was not implicated by the Court of Appeals' action and even if the reasonableness of the liquidated damages clause was a matter of pure law, the Court of Appeals still erred.

The district court entered summary judgment *sua sponte*, and based on a single undisputed fact – that Petitioner had signed the Agreement. Respondent never moved for summary judgment and the district court never noticed any intent to enter summary judgment of enforceability. Therefore, once the Court of Appeals properly determined that the district court's sole ground for entering summary judgment was in error, the Appellate Court's only option was to remand the case.

Federal courts "possess the power to enter summary judgments *sua sponte*, so long as the losing party was on notice that she had to come forward with all of her evidence." *Celotex Corp. v. Catrett*, 477 U.S. 317, 326 (1986). In this case, the Court of Appeals could not enter a new summary judgment against Petitioner, because the Court did not follow Rule 56 procedures. The Court never gave Petitioner notice that it was contemplating entering a new summary judgment or an opportunity to present a responsive case. The Court of Appeals could not rely on the existing record, because Petitioner never had any opportunity to present its evidence in response to any summary judgment of enforceability, and basic due process requires that any litigant be afforded the right to present its evidence at trial.

The Court of Appeals' surprising summary judgment demonstrated nothing short of extreme judicial overreaching, wholly ignoring the limits imposed both by the Federal Rules of Civil Procedure and this Court's precedent. Permitting the Court of Appeals' decision to stand will destabilize and rewrite Rule 56 to premise liability without regard to the due process provided in Rule 56. It will be an affirmation of a materially flawed process imposing in effect a punitive penalty of some $38 million upon a farmers' cooperative for having breached a contract.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully Submitted,

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APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

No. 03-2089

[Filed November 24, 2004]

Midwest Oilseeds, Inc.,	)
Plaintiff/Appellee,	)
	)
v.	)
	)
Limagrain Genetics Corporation, formerly known as Callahan Enterprises, Inc.,	)
Defendant/Appellant.	)
	)

Order Denying Petition for Rehearing and for Rehearing *En Banc*.

The petition for rehearing *en banc* is denied. The petition for rehearing by the panel is also denied. (5128-010199)

November 24, 2004

Order Entered at the Direction of the Court:

/s/_____
Michael E. Gaus
Clerk, U.S. Court of Appeals, Eighth Circuit

APPENDIX B

UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

No. 03-2089

[Filed October 14, 2004]

Midwest Oilseeds, Inc.,	)
Plaintiff/Appellee,	)
	)
v.	)
	)
Limagrain Genetics Corporation, formerly known as Callahan Enterprises, Inc.;	)
Defendant/Appellant.	)
	)

Appeal from the United States District Court
for the Southern District of Iowa

OPINION

BYE, Circuit Judge.

The parties to this diversity action together pioneered the marketing of soybean seeds in the 1970s, jointly ventured into the seed-breeding business in the 1980s, and wound up in federal court when their industry entered the biotechnology age. The main issue on appeal is whether restrictions in the

parties' 1986 joint-venture agreement (the Agreement) applied to the inheritable genetic makeup, or germplasm, of the seed at issue or applied only to the seed itself.

The district court[1] determined the Agreement protected the germplasm and granted summary judgment for appellee Midwest Oilseeds, Inc. (MO). On appeal, appellant Limagrain Genetics Corporation (CEI)[2] challenges this judgment and other rulings by the district court. We affirm.

I

At this point, we provide an overview of the complex procedural history of this case. While Section I provides a recitation of the essential facts, some details are reserved for the legal analysis in subsequent sections.

MO sued CEI in Iowa state court, and CEI removed the case to federal district court. MO alleged CEI had made unauthorized use of MO's restricted germplasm. Specifically, MO alleged CEI breached the Agreement by performing unauthorized breeding with MO seeds and their descendants and by licensing MO seeds and their descendants to third parties without use restrictions. MO sought liquidated damages of $10 for each bushel marketed in breach of the Agreement. CEI brought seven counterclaims, the first of

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[1] The Honorable Robert W. Pratt, United States District Judge for the Southern District of Iowa.

[2] For the sake of clarity, we refer to appellant Limagrain Genetics by the initials of its predecessor in interest, Callahan Enterprises, Inc., the party to the Agreement.

which alleged MO itself breached the Agreement by failing to pay CEI royalties due under the Agreement.[3]

The district court granted summary judgment on MO's breach-of-contract claim and ruled the liquidated-damages clause in the agreement was enforceable. The court also granted MO's motion for summary judgment on all CEI counterclaims except the first. Hence, the measure of damages owed MO, as well as CEI's breach-of-contract counterclaim, proceeded to trial.

On the eve of trial, MO brought a Motion for Judgment Based on Prior Rulings, arguing the court's construction of the Agreement applied retrospectively to restrict CEI's use of MO seed which CEI had received before the execution of the Agreement on March 14, 1986. The district court granted the motion but again concluded the measure of damages was a jury issue.

The jury found CEI and its licensees sold or transferred 3,449,445 bushels of seed in breach of the Agreement. Accordingly, the court entered a judgment of $34,494,450 ($10 x 3,449,445 bushels) in favor of MO. The jury also found CEI was entitled to $ 1,818,055 in damages for MO's failure to pay fees on 4,243,542 bushels of seed MO had licensed (i.e., $ 0.4266 per bushel).

Post trial, the court thrice entered judgment as a matter of law (JAML). First, the court determined eleven additional seed lines should have been included in the verdict and

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[3] The Agreement calls these royalties "research fees."

awarded MO an additional $4,339,010 in damages.[4] Accordingly, the court amended the verdict to $38,833,460. Second, the court ruled only seven of the thirty-one seed varieties at issue in CEI's counterclaim were subject to the Agreement's fee-sharing provision. Accordingly, the court reduced CEI's award to $180,725.80. As to the remaining seven varieties, the court granted MO's motion for a new trial, concluding the court had erroneously placed the burden of proof on MO instead of CEI, the party alleging the breach on the counterclaim. CEI then conceded it could not meet the burden, and so the court entered JAML in favor of MO on the entire counterclaim.

The court entered final judgment in favor of MO and against CEI in the amount of $40,892,353.67, consisting of damages, interest, costs, and fees. This timely appeal followed.

On appeal, CEI claims the district court erred when it (1) granted summary judgment for MO on its breach-of-contract claim, (2) ruled the liquidated-damages provision was enforceable, (3) concluded the Agreement's restrictions applied retrospectively to MO seed CEI received before the Agreement's effective date, (4) granted MO's motions for JAML and a new trial on CEI's first counterclaim, and (5) dismissed three of CEI's other counterclaims. We affirm in all respects.

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[4] CEI does not appeal this ruling per se. Rather, it challenges the district court's general interpretation of the contract that supports the damages award as a whole.

I

A. Early Relationship Between the Parties

In 1975, Midwest Oilseeds, a corporation formed by Harry Stine in 1972 to breed soybean seed, and Callahan Enterprises, Inc. first collaborated to breed and market new variations of soybean seed. Under their initial agreement, renewed in 1981, MO developed seed and CEI served as MO's exclusive distributor.

In 1982, a year after CEI started its own breeding program, the two companies formed a joint venture. They shared seed varieties with each other, and each compensated the other with research fees, or royalties, for the sale or transfer of seeds developed in the venture.[5] Other than the duty to collect and pay these royalties, the agreement placed no restrictions upon the use of the other party's seed in the development of new seed varieties.

In 1983, however, MO started to restrict the use of the seeds it developed and sold to third parties. Typically, MO permitted its customers to use seeds only to grow grain for feed or processing. Breeding with the seeds was prohibited. In other words, with the dawn of bioengineering, MO started treating the genetic material in the seeds, the germplasm, as intellectual property.

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[5] Under the fee-sharing arrangement in Paragraph 7 of the Agreement, the parties evenly split (50% - 50%) fees collected on seed developed by one party and marketed by the other. On seed both developed and marketed by one party, that party received 2/3 share of the fees (66.6%) and the other party received the remaining 1/3 (33.4%).

B. The 1986 Negotiations and Agreement

In February 1986, MO gave formal notice to CEI that it was terminating the 1982 agreement, and the parties started negotiating a new contract. Mr. Stine himself handled negotiations for MO; counsel represented CEI. Mr. Stine amended the 1982 agreement by hand, adding Section 4,[6] a provision restricting CEI's use of MO seed. CEI then typed a version of the contract making the restrictions mutual. In response, MO asked CEI to share the liabilities and costs of enforcing the restrictions on third parties. Because CEI believed the restrictions would be unenforceable, it ultimately agreed to restrict its use of MO seeds unilaterally, and as a result, the final version of the Agreement incorporated the amendments Mr. Stine had first inserted in his own hand. As we discuss at length in Section II of this opinion, these amendments limited CEI's seed-breeding use of MO seeds to making first-generation A X B crosses.

C. Subsequent Dealings

In July 1987, MO wrote CEI a letter expressing concern about a possible breach of the Agreement. The letter asked CEI to advise all parties who had received "Midwest developed seed or seed derived by use of Midwest developed seed of the restrictions referred to in [Paragraph 4(b)]." Instead of disputing MO's assertion Paragraph 4(b) applied to seeds with a Midwest pedigree, CEI responded it was implementing the program.

Next came three attempts by CEI to amend Paragraph 4(b). In 1987, CEI proposed making the restrictions mutual

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[6] Section 4 consists of Paragraphs 4(a) and 4(b).

and giving CEI a blanket exclusion from the restrictions in the development of new lines. In 1988, CEI proposed an amendment allowing the party originating a line to decide whether the restrictions would apply. In 1988, Rhone-Poulenc (Rhone), a French Company, acquired CEI for sixteen million dollars. On June 12, Rhone's president wrote Mr. Stine, inviting him to discuss the possible acquisition of MO, or alternatively, an amendment to the Agreement. A Rhone internal document dated weeks before the letter and entitled "Recommendations - M.O./C.E.I. Contracts" stated, "Germplasm Policy - delete CEI restrictions and have mutual usage policy . . . CEI needs to establish CEI germplasm policy."

After MO thrice declined to amend the Agreement, CEI gave formal notice of termination on July 1, 1989, effective in two years. CEI's president stated Rhone directed the termination because Rhone could not live with the contract as it stood. Under the terms of the Agreement, either party could terminate the agreement with two-years notice, but the agreement provided research fees would continue after termination for seeds in elite trials which the parties had not deleted from the venture.

D. Alleged Breach of the Agreement

In 1996, MO learned CEI had bred subsequent generations of MO offspring. In a series of letters, the parties disputed whether CEI's conduct violated Section 4. In internal documents, a Limagrain[7] official stated the question was unanswered, and an officer opined MO's restrictions were

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[7] Limagrain, another French company, had purchased CEI from Rhone in 1994.

against United States law and recommended CEI wait silently for Mr. Stine to attack. After conducting a legal review, CEI took the position it could breed freely with seeds having an MO pedigree and market the resulting offspring without paying MO royalties. At this point, MO did not sue.

In 1998, MO learned CEI had not only been engaged in its own breeding activities, but had also licensed to third-party competitors seeds owing their lineage to MO-developed seeds. Soon after, the parties entered into negotiations, which collapsed in August 2000. On November 29, 2000, MO filed the present lawsuit.

E. Other District Court Proceedings

In its complaint, MO properly pleaded three legal theories: Breach of contract, conversion, and misappropriation of trade secrets. The district court granted MO's summary judgment motion on the breach-of-contract claim. The court explained CEI had failed to raise the particulars of its affirmative defenses to liability in resisting the summary judgment motion and had thus failed to meet its burden of proof. Later in the proceedings, the district court granted MO's motion to sever the conversion and misappropriation claims, based on MO's stipulation it would dismiss these claims with prejudice if this court affirms summary judgment on the breach-of-contract claim. Because we do affirm, MO's other claims will be dismissed with prejudice.

II

We review motions for summary judgment de novo, applying the same summary judgment standard as the district court, *Hall v. Lhaco, Inc.*, 140 F.3d 1190, 1193-94 (8th Cir.

1998), and considering whether the district court properly followed the substantive law. *Carpenter v. Auto. Club Interinsurance Exch.*, 58 F.3d 1296, 1304 (8th Cir. 1995) (citing *Salve Regina Coll. v. Russell*, 499 U.S. 225, 239-40, 113 L. Ed. 2d 190, 111 S. Ct. 1217 (1991)). The parties to this diversity action agree Iowa substantive law applies. *See Erie R.R. Co. v. Tompkins*, 304 U.S. 64, 78, 82 L. Ed. 1188, 58 S. Ct. 817 (1938).

Summary judgment is proper if there is no genuine issue of material fact and the moving party is entitled to judgment as a matter of law. *See Lambert v. City of Dumas*, 187 F.3d 931, 934 (8th Cir. 1999); Fed. R. Civ. P. 56(c). We view the evidence, as well as the inferences that may be reasonably drawn from the evidence, in the light most favorable to the non-moving party. *Enter. Bank v. Magna Bank of Missouri*, 92 F.3d 743, 747 (8th Cir. 1996). However, summary judgment is properly regarded not as a disfavored procedural shortcut, but rather as an integral part of the Federal Rules of Civil Procedure, which are designed to secure the just, speedy, and inexpensive determination of every action. *Celotex Corp. v. Catrett*, 477 U.S. 317, 327, 106 S. Ct. 2548 (1986), 91 L. Ed. 2d 265.

A. The Plain Language of the Agreement

In interpreting a contract under Iowa law, we must first examine the plain language of the contract. *See Walsh v. Nelson,* 622 N.W.2d 499, 503 (Iowa 2001). If its terms are unambiguous, we may not substitute a different meaning for that which the parties clearly intended and embodied in unambiguous terms. *Id.* On the other hand, if the terms are ambiguous, we may consider extrinsic evidence to determine the intent of the parties in signing the contract. *See id.* at 504; *Kroblin v. RDR Motels, Inc.*, 347 N.W.2d 430, 433 (Iowa

1984) (reasoning the trial court properly considered post-signing conduct as evidence of the parties' intent). Looking no further than contract terms, the district court concluded there was no issue of material fact CEI had breached the Agreement by (1) improperly licensing third-party breeding rights for seeds owing their lineage to restricted MO seed, and (2) performing unauthorized breeding beyond the first-generation A X B crosses permitted by Paragraph 4(b).

We agree the conclusion CEI breached the Agreement follows inevitably from a natural and sequential reading of the Agreement. Our starting point is Section 4, which consists of two critical paragraphs:

> 4. Private Label Soybean Licensing Agreement
>
> (a) CEI and MO shall sign Private Label Soybean Licensing Agreements as approved by MO and CEI with all participating seed companies and seedsmen. CEI and MO shall be responsible to each other for collection of fees on all seedstock sold of varieties owned by the other party.
>
> (b) The . . . Seed Purchase Agreement, a copy of which is attached, shall apply to all MO developed seeds and the principles of such shall be incorporated into the Licensing Agreement referred to in sub paragraph a above . . . .

Thus, the Licensing Agreements in Paragraph 4(a) required purchasers to pay royalties for the right to use the seeds produced in the joint venture, and each party to the contract agreed to collect fees for the venture when it sold the other party's seed to third parties. More importantly, Paragraph 4(b) incorporated the Seed Purchase Agreement (SPA) by

reference and applied the SPA's requirements to all "MO developed seeds," including those sold to third parties under 4(a).

We next turn our attention to the SPA, which Paragraph 4(b) incorporated by reference. The SPA imposed three requirements on the purchaser of MO seeds. First, it limited use of the seeds to feed or processing:

> Purchaser hereby acknowledges and agrees that the production from the Midwest Oilseeds Soybean Seeds herein sold *will be used only for feed or processing and will not be used or sold for seed, breeding or any variety of improvement purposes*.

(Emphasis added.) Second, through the SPA, MO retained a proprietary interest in the seeds it sold and forbade using MO seed for breeding new seed varieties:

> Purchaser acknowledges Supplier's proprietary interest in the use of subsequent production from the seeds herein sold, and agrees *it would be a violation of this agreement to allow the subsequent production of the seed herein sold to be used to create a seed variety or seed product from said production . . . .*

(Emphasis added.) Third, as we will discuss below, the SPA contained a liquidated damages provision, whereby purchasers agreed the unauthorized use of MO seeds would cause MO damages of $10 per bushel. By incorporating the SPA, therefore, Paragraph 4(b) categorically forbade CEI and all third-parties from using MO seeds for breeding.

In the light of this general prohibition against breeding with MO-developed seeds, we now turn our attention to the

pivotal provision in the Agreement, an exclusion in the second part of Paragraph 4(b):

> CEI research shall be excluded from the restrictions of the Seed Purchaser Agreement for *purposes of making A X B*[8] *crosses* (not back crosses or biotechnical alterations) *if such resulting populations are available for use by MO and subsequent lines selected from the populations are marketed under the terms of this agreement.*

(Emphasis added.) CEI argues this provision permitted it to use the offspring of the A X B crosses without any restrictions. We disagree.

By its own terms, the limited exclusion imposed two conditions on CEI's use of MO-developed seed in breeding: First, CEI had to make available to MO the offspring resulting from the A X B cross, and second, subsequent lines selected from such offspring had to be marketed according to the terms of the Agreement. In other words, while the exclusion permitted CEI to make A X B crosses using MO seed, it did not grant CEI unconditional use of the resulting offspring. CEI first had to share the offspring with MO for the latter's own subsequent research and breeding. More importantly, CEI could not use marketable lines selected from the offspring without complying with the first part of Paragraph 4(b) and the SPA. Because the SPA, again, limited the use of MO-developed seeds to feed and processing, CEI's use, other than the narrow exclusion, was limited to

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[8] The parties agree A X B crosses refer to the first-generation offspring from parents A and B, where at least one of the parents is a MO-developed seed.

marketing the seeds for feed or processing. Stated conversely, neither CEI nor third parties could use the resulting offspring for "breeding or any variety of improvement purposes."

CEI's argument flows as follows. By incorporating the SPA by reference, the first part of Paragraph 4(b) restricted the use of *MO developed* seeds for feed or processing. The second part of Paragraph 4(b) excluded CEI from this restriction insofar as it permitted CEI to make A X B crosses to produce a new seed variety, which we will call AB. Because AB was developed by CEI and not by MO, the variety is not an *MO-developed* seed and therefore is not subject to the restrictions in Paragraph 4(b) and the SPA.

CEI, of course, invites us to read Paragraph 4(b) in an unnatural and circular manner. As though viewing one of Escher's impossible structures, we are to read the second condition to the exclusion - that subsequent lines selected from AB populations be marketed under the terms of the Agreement - and circle back to the first part of Paragraph 4(b), only to realize then the AB populations are not subject to the prohibition against breeding after all.

Such a reading, of course, subverts critical language in the Agreement and renders the structure of Paragraph 4(b) surreal. For one, the scope of the exclusion - "for purposes of making A X B crosses" - is entirely drained of meaning, for CEI can now use MO seeds to breed any seed variety however removed from the MO ancestor. Similarly, the second condition is rendered superfluous, for it operates only to direct the reader back to the top of the Paragraph, to learn the condition itself serves no substantive purpose. More importantly, CEI's reading renders the SPA's key provisions inapplicable to the A X B offspring and its progeny. If the meaning and intent of Paragraph 4(b) were to grant CEI

limitless use of MO seed, then there would be no need to incorporate the SPA's restrictions in one sentence only to write them out in the next.

We conclude the Paragraph 4(b) exclusion granted CEI no more than a limited license to use MO seeds to create first-generation varieties to be marketed according to the terms of the Agreement. We therefore hold CEI breached the Agreement when it exceeded the scope of the limited exclusion by improperly licensing third-party breeding rights for seeds owing their lineage to restricted MO seed and by performing unauthorized breeding beyond the A X B crosses permitted by Paragraph 4(b).

B. Extrinsic Evidence

Even if we somehow deemed the contract ambiguous, we would reach the same conclusion after considering the extrinsic evidence. Under Iowa law, we read a contract in light of the surrounding circumstances, giving such practical construction as the parties themselves placed upon it. Kroblin, 347 N.W.2d at 433 (holding the manner the parties performed during the first two years of the contract was relevant to the meaning of the contract terms). In this case, CEI's conduct reveals it understood the Agreement as placing restrictions on the use of MO germplasm.

In July 1987, for example, Mr. Stine wrote CEI a letter expressing concern about a possible breach of the Agreement by CEI licensees. He asked CEI to remind all parties of SPA's restrictions, which applied to "seed derived by use of Midwest developed seed." A week later, CEI responded that it was implementing the program. Clearly, CEI understood the SPA to protect the genetic makeup of the MO seed.

More critically, CEI's conduct reflects its understanding *it* too was required to observe the SPA's restrictions. CEI thrice proposed amending the Agreement. First, in 1987, CEI sent Mr. Stine an amendment to Paragraph 4(b) for him to "sign and return." The amendment would have made the SPA's restrictions mutual and given CEI the blanket exclusion it had failed to secure in the Agreement. As part of the amendment, CEI proposed each originator of a seed bear the costs and liabilities of enforcing the restrictions - essentially the same concept CEI had rejected in negotiations. Second, in 1988, CEI proposed an amendment to allow the party who originated a line to decide whether the restrictions applied. As with the previous proposal, this amendment would have been unnecessary if the Agreement already allowed CEI to breed with the A X B offspring without restrictions. Finally, in 1989, Rhone wrote Mr. Stine a letter inviting him to discuss Rhone's proposal to acquire MO or, alternatively, an amendment to the Agreement. A CEI internal document dated weeks before Rhone's letter and entitled "Recommendations - M.O./C.E.I. Contracts" states "Germplasm Policy - delete CEI restrictions and have mutual usage policy . . . . CEI needs to establish CEI germplasm policy."

Both the plain language of the Agreement and the extrinsic evidence establish CEI agreed to limit its use of MO seeds to A X B crosses. We highlight the fact CEI admits it bred subsequent generations from the AB offspring and licensed MO germplasm without MO's consent and without paying MO fees. Having concluded these actions constituted a breach of the Agreement, we affirm the district court's grant of summary judgment for MO on its breach-of-contract claim.[9]

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[9] CEI also argues the district court erred in deciding the Agreement applied "retrospectively" to MO seeds CEI acquired between 1982

C. CEI's Defenses to Liability for Breach of Contract

In its resistance to summary judgment, CEI asserted three equitable defenses to liability: laches, waiver, and mitigation of damages. Because CEI "barely mentioned these defenses" and failed to raise "the particulars of these defenses," the district court concluded they could not shield CEI from the consequences of its breach. On appeal, CEI explains it did not develop the defenses because the district court imposed a page limit on the resistance papers.

"In resisting a properly supported motion for summary judgment, the plaintiff has an affirmative burden to designate specific facts creating a triable controversy." *Crossley v. Georgia-Pacific Corp.*, 355 F.3d 1112, 1113 (8th Cir. 2004) (internal quotation and citation omitted); *see* Fed. R. Civ. P. 56(e). The specificity requirement of Rule 56 applies with equal force where the defendant resists summary judgment, especially where the defendant resists by asserting affirmative

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and 1986. CEI contends it received these seeds under the 1982 contract, without the SPA's restrictions. Because Paragraph 4(b) states the SPA's restrictions apply to "*all* MO developed seeds" (emphasis added), and Section 12 states the Agreement supersedes any previous agreement, seeds that MO provided to CEI under the 1982 contract are also covered by the Agreement and its restrictions. Further, because breeding a new line takes at least six years and CEI did not start its own breeding program until 1981, the district court correctly reasoned CEI had not yet developed any offspring from MO seeds as of 1986. Thus, when the Agreement protected MO's proprietary right in the offspring of MO seeds, the protection reached all the MO parents CEI had received between 1982 and 1986, even those with which CEI may have started to develop new lines.

defenses which it has a burden to prove. As the party resisting summary judgment in this case, then, CEI had an affirmative burden to identify specific facts in the record showing its defenses raised a triable issue against its liability. This CEI did not do.

CEI admittedly failed to identify in its summary judgment response any such facts that might exist in the record. Only now, on appeal, does CEI assert facts purporting to create a triable material issue supporting its defenses. In effect, CEI asserts for the first time facts it believes should reverse the summary judgment. "Factual assertions that defeat a summary judgment," however, "cannot be presented for the first time to [an] appellate court, and only those matters properly before [the] district court for summary judgment consideration are subject to appellate review." *Garcia v. Pub. Health Trust*, 841 F.2d 1062, 1066 (11th Cir. 1988) (quotation and citation omitted). *Cf. White v. McDonnell Douglas Corp.*, 904 F.2d 456, 458 (8th Cir. 1990) (stating a district court is not "obligated to wade through and search the entire record for some specific facts which might support the nonmoving party's claim").

In any event, even if we reviewed the merits of CEI's defenses, we would still affirm. According to the record, MO did not confirm CEI was improperly licensing germplasm to third parties until 1998, at which time MO initiated negotiations with CEI. When the talks broke down in August 2000, MO immediately brought this lawsuit in November. On these facts, we doubt we would hold the district court abused its discretion in denying CEI equitable relief, where CEI failed to develop any argument in support of the equitable defenses. *See Lincoln Benefit Life Co. v. Edwards*, 243 F.3d 457, 461 (8th Cir. 2001) ("We review a district court's denial of equitable relief for abuse of discretion."); *Baxter*

Healthcare Corp. v. Spectramed, Inc., 49 F.3d 1575, 1584 (Fed. Cir. 1995) (stating the determination of inequitable conduct is committed to the discretion of the trial court and reviewed for abuse of discretion).

In sum, the district court's judgment finding CEI liable for breach of contract is affirmed.

III

CEI challenges the district court's determination the liquidated-damages clause was enforceable as a matter of law. "Under Iowa law, the question whether a contract provision is a valid liquidated damages provision or an unenforceable penalty is a question of law for the court." *MidAmerican Energy Co. v. Great Am. Ins. Co.*, 171 F. Supp. 2d 835, 848 (N.D. Iowa 2001) (quotation and citation omitted). Consequently, review is for correction of errors of law. *Aurora v. Michael Albert, Inc.*, 548 N.W.2d 153, 155 (Iowa 1991).[10]

We begin the analysis by deciding whether CEI bears the burden of proving the provision is an unenforceable penalty or MO bears the burden of proving it is a valid liquidated-damages clause. As the Iowa Supreme Court has not directly answered the question, we must predict how that Court would decide this unresolved issue of state law, using decisions from

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[10] Because our jurisdiction is based on diversity, we look to state law for the proper standard of review. *See Erie R.R. v. Tompkins*, 304 U.S. 64, 78, 58 S. Ct. 817 (1938), 82 L. Ed. 1188; *see*, e.g., *Burke v. Deere & Co.*, 6 F.3d 497, 511 (8th Cir. 1993) (applying state law standard of review in reviewing sufficiency of the evidence in a diversity case).

other jurisdictions as aids. *See Gravquick A/S v. Trimble Navigation Int'l. Ltd.*, 323 F.3d 1219, 1222 (9th Cir. 2003). [**26] In other jurisdictions, the "prevailing rule is that the party challenging the enforceability of a liquidated damages clause has the burden of proving that it is a penalty." *Honey Dew Assocs., Inc. v. M & K Food Corp.*, 241 F.3d 23, 27 (1st Cir. 2001). Furthermore, the Iowa Supreme Court has recognized and endorsed the trend favoring liquidated damages. *See Rohlin Constr. Co. v. City of Hinton*, 476 N.W.2d 78, 79-80 (Iowa 1991). As a district court recently concluded, "the Iowa Supreme Court would assign the burden of proving the unenforceability of a liquidated damages clause to the party raising that defense." *MidAmerican*, 171 F. Supp. 2d at 849.

In *Rohlin*, the Iowa Supreme Court adopted the standard for liquidated damages in the Restatement (Second) of Contracts. 476 N.W.2d at 80. Whether liquidated damages are reasonable turns on the combination of two factors: (1) whether the fixed amount reasonably approximates the loss caused by the breach, and (2) the difficulty either in proving the loss has occurred or in establishing the amount of the loss with certainty. *Id.* If the difficulty of proof is great, considerably more latitude is allowed in the approximation of the actual harm. *Id.*

In this case, the SPA contained the following liquidated-damages provision:

> Purchaser agrees and acknowledges that any use of Midwest Oilseeds Soybean Seeds in violation of this agreement, will cause a minimum damage to Midwest Oilseeds, Inc. of $ 10.00 per bushel for each bushel so used, and that if subsequent production of the seed herein sold is used to create a seed variety or seed

> product a minimum damage to Midwest Oilseeds, Inc. of $10.00 per bushel for all seed varieties or seed products thereby created will be caused.

MO argues the fixed amount of $10 per bushel certainly approximates, and perhaps even underestimates, MO's actual losses. MO presented the following evidence in support of its view:

- CEI secretly licensed the progeny of MO germplasm for compensation to MO's established competitors as well as start-up companies which can now use MO's intellectual property as a platform for future development. MO lost not only royalties but also a market advantage because it now has to compete against its own seeds.

- Blake Seiker, a consulting certified public accountant with over a decade of experience in the soybean business, testified that $10 per bushel was reasonable.

- In a recent transaction, a company's germplasm portfolio sold for over 28 times the amount of annual royalty revenue produced by that germplasm. From that transaction, we can extrapolate the $10 amount equals to 28 times a fee of $.36 per bushel (10 w 28 = .36). Because $.36 is a reasonable fee,[11] the

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[11] For example, the jury awarded CEI $ .43 per bushel in fees on its counterclaim.

> valuation of MO's germplasm at 28 times the fee is consistent with the market price of germplasm as reflected in the recent transaction.

In response, CEI points out MO granted third parties several licenses charging less than a $1.00 per bushel and MO would pay CEI only $.43 per bushel on the counterclaim. From these numbers, CEI infers the amount of the liquidated damages grossly overstates MO's actual damages. CEI's argument, of course, is without merit. MO's third-party licenses granted only the right to plant the seeds, not to breed with them; thus it is understandable the licenses would reflect a price much lower than the value of the intellectual property. Similarly, because MO was free to use CEI's germplasm in breeding, the damages on the counterclaim reflect only the sales royalties owed to CEI.

CEI also argues MO charged Pioneer, another competitor, only $.25 to $.40 per bushel for first generation seeds and nothing for second generation seeds. In fact, Pioneer may have paid $1.80, but that is beside the point. Under the Pioneer contract, MO also received exclusive right to use Pioneer's germplasm. Rather than support CEI's position, the MO-Pioneer contract underscores the obvious - that germplasm has a value of its own, above and beyond sales royalties.

To summarize, while CEI fell far short of meeting its burden of proof, MO demonstrated a correlation between the market value of its actual losses and the value of the liquidated damages.

The second prong of the Restatement's test buttresses the district court's determination. Because the breach involves the

release of MO's intellectual property to its competitors, damages are extremely difficult to determine in this case. As MO explained:

- MO suffered not only the loss of royalties from sales of its seeds but also the competitive advantage of owning unique intellectual property. MO now has to compete against its own seeds.

- The damage to MO goes far beyond the losses MO has suffered thus far. MO lost streams of revenue from future generations of seeds with MO ancestors.[12]

- MO must subpoena soybean companies to obtain their breeding and sales records to determine their use of MO germplasm. In doing so, MO suffers a loss of goodwill in the industry.

- These records, in any event, do not paint the full picture. Under at least one of CEI's licenses, the third-party licensee had no obligation to report or track the use of the restricted MO germplasm after the second generation.

- Informal and oral agreements and other breeding relationships abound in the industry.

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[12] In its summary ruling, the district court refused to hold the judgment open to allow MO to prove additional liquidated damages against CEI in the future.

> These arrangements make it nearly impossible to find and trace the unauthorized use of MO germplasm.

On these facts, the true measure of the damages is indeed difficult to ascertain. CEI argues damages are precisely ascertainable by multiplying the royalties due times the number of offending bushels. Such computations, of course, only produce MO's revenue losses from bushels traced to an MO ancestor; they do not and cannot ascertain the extent of MO's unknown current and future revenue losses from untraceable bushels. In other words, CEI again fails to recognize the breach denied MO a proprietary interest and a market advantage.

Where the difficulty of proof is great, Iowa allows greater latitude in the approximation of the actual harm, Rohlin, 476 N.W.2d at 80, and so MO should prevail even with a rough approximation of its actual losses. Therefore, where MO advanced uncontested facts showing the $10 amount was reasonable, the district court properly determined the liquidated-damages provision was enforceable. We affirm this determination.

IV

A. Contract Provisions Implicated in CEI's Counterclaim

CEI's first counterclaim alleged MO had marketed certain seed varieties (lines and sublines) without paying CEI research fees. The counterclaim implicates three contract provisions whose meaning is not in dispute. First, Paragraph 10 permitted each party unilaterally to "delete" its lines from the joint venture. In other words, either party was permitted to withhold for its own breeding and marketing any of its own

lines, removing the lines from the purview of the Agreement, including the fee sharing arrangement.

Second, Paragraph 7 required each party to share with the other research fees for all lines of seed "marketed under the Agreement." That is to say, as to lines that remained in the program because they were not deleted, the parties were obligated to share research fees.

Third, Paragraph 9 provided that fees attached to undeleted lines once they were commercialized or entered elite trials. Importantly, once fee-sharing attached, the parties were obligated to share fees for as long as they marketed the variety, even after the termination of the Agreement.

To summarize, the Agreement permitted the parties to delete their lines from the program. As to those lines the parties did not delete, the Agreement required the parties to share fees once the lines reached elite testing or were commercialized.

B. Procedural History of the Counterclaim

The jury awarded CEI $1,810,055 in damages corresponding to MO's sale of thirty-one seed varieties. After trial, MO entered a renewed motion for JAML and, alternatively, a motion for a new trial. The district court concluded twenty-four of the thirty-one varieties at issue had neither entered elite trials nor been commercialized on the date the contract expired, July 1, 1991. These twenty-four varieties were therefore exempted by Paragraph 9 and no fees were due on them as a matter of law. As a result, the court set aside $1,629,329.20 of the $1,818,055 verdict, leaving CEI $180,725.80.

In support of its new-trial motion, MO argued (1) the award was excessive for the reasons the court granted the motion for JAML; (2) the court's jury instructions erroneously placed the burden of proof on MO instead of CEI, the party alleging the breach; and (3) CEI's counsel engaged in prejudicial misconduct. Without reaching the third argument, the district court agreed it would grant the motion.

Pursuant to Federal Rule of Civil Procedure 59, the court decided it would grant the new-trial motion unless CEI agreed to remit the $1,629,329.20, retain the $180,725.80, and waive its right to appeal the amount of the retained verdict. In response, CEI not only turned down the remittitur but also declined the new trial, conceding it would not be able to carry the burden of proving MO had breached the Agreement as to the seven varieties surviving JAML. CEI agreed MO was entitled to JAML on the entire counterclaim. On appeal, CEI argues the court erred in granting the motions for JAML and the motion for a new trial.

C. Review of the Post-Trial Motions

We review de novo a district court's decision to grant a motion for JAML after a jury verdict. *Hathaway v. Runyon*, 132 F.3d 1214, 1220-21 (8th Cir. 1997). We must construe the facts in the light most favorable to the verdict, *see Ollie v. Titan Tire Corp.*, 336 F.3d 680, 685 (8th Cir. 2003), and we will affirm the judgment only if the evidence is legally insufficient to support the verdict. *See* Fed. R. Civ. P. 50(a); *Belk v. City of Eldon*, 228 F.3d 872, 878 (8th Cir. 2000).

CEI's appeal turns on the meaning of the word "subline." MO argues sublines are varieties of seed distinct from the parent line from which they were identified and segregated. CEI counters the distinction between line and subline is

artificial and purposefully misleading. Because, as we have seen, fees attached to varieties once they entered elite trials, the semantics are important because they will determine when the varieties entered elite trials, whether on their own when segregated as sublines or together with their parent line when it reached elite status.

At trial, MO presented evidence supporting its definition. Mr. Stine testified sublines have a genetic code distinct from their parent line and it would be illegal to market a subline as the same variety as its parent. MO's chief breeder, William Eby, and a Dr. Garland who testified for CEI agreed sublines undergo their own elite trials. Mr. Eby added sublines are indeed identified and segregated and then developed and marketed as varieties distinct from their parents. Such evidence clearly supported MO's definition of sublines as distinct varieties which are at some point segregated from their parents and developed into their own lines.

On appeal, CEI argues the practice of segregation is a fiction MO created to avoid paying fees on varieties by giving them a different suffix on their tracking number. For purposes of determining liability as a matter of law, of course, such bare allegations will not do. CEI does not point to any evidence refuting Mr. Eby's testimony sublines are indeed segregated, developed, and marketed separately. Nor does CEI challenge with any evidence in the record Dr. Garland's assertion sublines undergo their own elite testing. Finally, CEI fails to refute Mr. Stine's testimony sublines have a different genetic code and legally cannot be marketed as one variety with the parent. More to the point, CEI does not refute the fact the disputed sublines *have in fact been* identified, segregated, tested, and marketed for sound scientific and economic reasons. We conclude the sublines at

issue in the counterclaim were indeed varieties distinct from the parent lines.

Critically, MO also presented evidence the sublines at issue had not been segregated from their parents before the Agreement expired on July 1, 1991.[13] The timing of the segregation matters because it determines whether the disputed varieties came under the purview of the Agreement. Under the terms of the Agreement, MO owed fees only on the disputed sublines segregated from elite parents before the Agreement expired. If a subline was segregated from the parent *after* the Agreement expired, then MO owed no fees on the subline because it did not exist as such at the time the Agreement was in effect.

Ironically, CEI concedes the varieties in issue were undifferentiated from the parents during elite trials in 1991. Because CEI believes sublines and parent lines are identical and segregation is a fiction, CEI actually underscores the fact

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[13] Mr. Eby gave unrefuted testimony sublines are identified and segregated one year before they enter elite trials. In other words, by looking at the date a subline entered elite trials, one could work backwards and figure out the earliest possible date when the subline must have been segregated from its parent. Based on this reasoning, the district court concluded sublines which were segregated before the contract terminated in July 1991 must have necessarily entered elite trials no later than 1992. According to plaintiff's exhibit 346, the court noted, only one subline at issue entered elite trials before 1993. Thus, with the one exception, all of the sublines were per force segregated after 1991 and were hence not subject to the fee provision. After subtracting these sublines from the jury's award, the district court concluded only seven varieties should have been tried before the jury.

the varieties were not segregated before the Agreement expired. On this premise, CEI then argues MO owed fees on the entire parent line, including the varieties which MO later artificially differentiated as sublines. As we have already determined, however, CEI's premise is without support in the record. To reiterate, the sublines were indeed distinct varieties, and as CEI concedes, they were not segregated from their parent lines in 1991. Thus, the sublines necessarily entered elite testing after the Agreement ended, and they consequently never came under the fee-sharing provision.

Ultimately, CEI's position amounts to a claim over MO germplasm. Because CEI believes it is entitled to fees for sublines derived from the parent, CEI essentially makes a claim for the germplasm passed down to sublines ad infinitum. Taken to its logical conclusion, this argument would entitle CEI to receive fees in perpetuity for the entire progeny of a parent line which happens to have reached elite status during the life of the contract. Such a reading of the contract would vitiate Section 4 and the SPA - the contractual provisions we have already determined bestowed absolute protection upon the value of MO's intellectual property.

We conclude the uncontroverted evidence at trial showed the twenty-four sublines for which CEI received damages did not exist as such when the contract expired. Thus, these varieties were exempted by Paragraph 9, and CEI was not harmed when MO later identified, segregated, and marketed them. The district court, therefore, correctly granted the first motion for JAML.

We now turn to the district court's decision to grant the motion for a new trial. We review such a decision for abuse of discretion. *United States v. Lee*, 274 F.3d 485, 493 (8th Cir. 2001); Fed. R. Civ. P. 59(a).

CEI argues the court correctly assigned the burden of proof to MO at trial, because the deletion of the lines "is a condition subsequent excluding something that would have otherwise been within the scope of the contract." Appellant's Brief at 80. We disagree. A condition subsequent discharges a duty that has already arisen under the contract. John D. Calamari & Joseph M. Perillo, Contracts § 11-7, at 442 (3rd ed. 1987). Here, the duty to pay fees did not arise until *after* MO decided not to delete lines. Thus, the non-deletion was a condition precedent to the duty to pay fees. *See id.* at 442-43.

Under traditional contract principles and Iowa law, the party asserting the breach has the burden of proving the breach, *see Iowa-Illinois Gas & Elec. Co. v. Black & Veatch*, 497 N.W.2d 821, 825 (Iowa 1993), and the same party has the burden of proving the condition precedent to liability was satisfied. *Henschel v. Hawkeye-Security Ins. Co.*, 178 N.W.2d 409, 419 (Iowa 1970) ("Where the contract contains a condition precedent, the plaintiff must assume the burden of proof as to the happening of the condition upon which liability of the other party to the contract depends.").

We conclude the district court did not abuse its discretion when it granted a new trial on that part of CEI's counterclaim corresponding to the seven remaining varieties. In turn, after CEI conceded it could not meet the burden of proving MO had breached the Agreement, the court properly entered JAML for MO on these seven varieties. We therefore affirm the district court's grant of the motion for JAML on the entire breach-of-contract counterclaim.

D. CEI's Other Counterclaims

CEI appeals the district court's summary dismissal of three of its other counterclaims. We agree with the district

court these claims were entirely without merit and deserved the summary disposition they received. They are all based on the premise the protections of Paragraph 4(b) and the SPA were bilateral so that the Agreement restricted MO from breeding with CEI germplasm. Because such a reading of the contract is absolutely without foundation in fact or law, we summarily affirm the district court's judgment as to these claims. *See* 8th Cir. R. 47B.

V

For the foregoing reasons, we affirm the judgment of the district court.

APPENDIX C

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF IOWA
CENTRAL DIVISION

4:00-cv-90695

[Filed November 2, 2002]

Midwest Oilseeds, Inc.,	)
Plaintiff,	)
	)
v.	)
	)
Limagrain Genetics Corporation,	)
f/k/a Callahan Enterprises, Inc.,	)
Defendants.	)
	)

MEMORANDUM OPINION AND ORDER

Plaintiff, Midwest Oilseeds Inc. (MO), brings this action in diversity against Defendant, Limagrain Genetics Corporation, formerly known as Callahan Enterprises, Inc. (CEI), seeking legal and equitable relief for claims of breach of contract, conversion, and misappropriation of trade secrets. CEI has counterclaimed for breach of contract, restitution because of mistake of fact, unjust enrichment, misappropriation and conversion via breach of contract, and misappropriation of trade secrets. Presently before the Court are three motions for summary judgment. Plaintiff MO has

moved for partial summary judgment on Count I of its complaint for breach of contract. Plaintiff's second motion seeks an entry of summary judgment on all of Defendant's counterclaims. In its own motion, CEI prays this Court grant summary judgment against Plaintiff on all causes of action. The parties have submitted briefs and other papers supporting and resisting the various motions. The Court heard oral argument on all motions on October 17, 2002. The matter is fully submitted.

The Court finds that CEI breached its contractual agreement with MO, and finds CEI liable for damages as described in the seed purchase agreement. MO's Motion for Partial Summary Judgment on Count I of its Complaint is granted. Plaintiff's Motion For Summary Judgment on All Counterclaims is denied as to Defendant's first counterclaim for breach of agreement; disputed issues of material fact preclude summary judgment on this counterclaim. [**3] The motion is granted on all other counterclaims. Defendant's motion for summary judgment is denied. To the extent, however, that Defendant's motion identifies pleading deficiencies in counts IV, V, and VI of Plaintiff's complaint, the motion is granted.

I. INTRODUCTION

The legal nature of the present case is predominately a straightforward breach of contract case. MO and CEI entered into a contract whereby each party agreed to do and to forego from doing certain things. As the story often goes, a dispute arose and litigation followed when one party or the other failed to do what it promised it would do, or did what it promised it would not do. In any contract case, the party asserting the claim bears the ultimate burden of proving the elements of the breach. The Court recognizes that granting

summary judgment in favor of the party with the burden of proof is a necessarily rare occurrence. *Turner v. Ferguson*, 149 F.3d 821, 824 (8th Cir. 1998). This case proves itself the exception.

The question before the Court on Plaintiff's summary judgment motions is whether the legal construction of the contract terms mandates an entry of judgment based on the undisputed [**4] facts, or if summary judgment is forestalled because the determination of whether a party's conduct falls outside the scope of the contract hinges upon the resolution of disputed material facts. MO's breach of contract claim is the rare case where MO bears the burden of proof, yet the undisputed facts clearly evince MO's right to recover on its breach of contract claim. CEI's first counterclaim [*946] for breach of contract is the more familiar case where factual disputes preclude summary judgment for either side.

While the legal issues are recognizable in this case, the underlying subject matter, plant genetics, is less familiar. The relationship between the parties involves the genetic crossing and breeding of soybean germplasm with the ultimate goal of developing new and marketable lines of soybean seeds. To understand this relationship, the terms of the contracts, and the present dispute, one needs to understand the basic principles of genetic crossing and soybean breeding. Thus, with a tip of the hat to Gregor Mendel[1], the Court plunges

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[1] (1823-1884). Considered the father of genetics, the Austrian monk's revolutionary 1866 paper "Experiments with Plant Hybrids," went largely ignored until it was rediscovered at the turn of the twentieth century.

into the miniaturized world of plant genetics and soybean breeding.

II. GENETICS 101

The practice of soybean breeding involves genetically crossing two distinct variations of soybean seeds with the ultimate goal of producing a crossed offspring variation that exhibits the combined favorable traits of the two parent seeds. The initial cross between the two parent seeds is known as an A x B cross. Every A x B cross produces one of four possible results that are easiest to understand if one envisions each parent seed as having desired genetic traits (represented as A and B) and undesired genetic traits (represented as a and b). Thus, the A x B cross is more accurately represented as Aa x Bb. The possible results of the cross are, therefore: 1) ab, wherein the undesirable traits of both parents are exhibited in the offspring variation; 2) Ab, wherein the offspring variation exhibits the desirable traits of A and the undesirable traits of b; 3) aB, the inverse of the second result; and 4) AB wherein the resultant variation possesses the desirable traits of both the A and B parent seeds. In practical terms, the first result is pragmatically useless as the resultant seed has no desirable traits. The second and third results are of no consequence [**6] as the cross produced a seed that was no better than the favorably represented parent seed. Thus, the only desirable result is the fourth, wherein the offspring variation possesses the favored traits of both parents. For soybean seeds, the length of time between the initial cross and the realization of a marketable variation is around six to seven years.

Regardless of the result, the offspring variation owes fifty percent of its genetic information to parent A and fifty percent to parent B. Thus, assuming the cross produces the desired result, the offspring variation is represented not as seed C, but

as seed AB. AB is known as a first generation offspring variation of the initial A x B cross. As AB is a distinct variation, it can now be crossed with other distinct seed variations to develop second generation variations. For example, one might cross AB with seed C.[2] As with the initial A X B cross, both AB and C have desirable and undesirable genetic traits. Thus the second generation cross is accurately represented as ABab x Cc. The desired result of the cross is, of course, ABC, in which fifty percent of the genetic material comes from C and fifty percent comes from AB. Importantly, one must not forget that the AB half of ABC represents twenty-five percent of the genetic code from A and twenty-five percent of the genetic code from B. The genetic contributions from the initial parents are never eliminated from the equation regardless of how many successive generations are created.

III. BACKGROUND

A. The Early Years

This tale of two companies begins twenty-five years before Plaintiff Midwest Oilseeds, Inc., filed this action in the County Court of Dallas County, Iowa on November 29, 2000. In 1975, Midwest Oilseeds, Inc., an Iowa corporation formed by Harry Stine in 1972 to breed soybean seed, and Callahan Enterprises Inc., an Indiana corporation founded in 1964 by

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[2] In addition to crossing AB with C, the breeder can also "backcross" AB with one of its parents. Assuming AB is backcrossed with A, the resulting variation would be seventy five percent A and twenty-five percent B. The offspring variation of such a backcross would be represented as AAB.

husband and wife, Noel and Carolyn Jo Callahan, first paired up to breed and market new variations of soybean seed. Under the initial agreement, MO would develop seed, and CEI would serve as MO's exclusive seed distributor, subject to prior agreements between MO and other marketers. The two companies renewed their basic agreement in 1981. Until 1981, CEI did no breeding of its own.

In 1981, CEI commenced its own breeding program, and began to acquire germplasm and breeding techniques from various sources. As well, CEI hired Dr. Marshall Garland, a professional soybean breeder to head up the new project. In February 1982, CEI expanded its new breeding program by entering into a "Research Fee Agreement," with MO. Under the agreement, MO provided CEI with germplasm and breeding techniques so that CEI might develop new marketable offspring variations from the MO germplasm. The parties then paid research fees to each other for sales of seeds developed under the agreement. The 1982 agreement continued until early 1986 when MO gave CEI notice of termination.

After MO terminated the 1982 research fee agreement, the parties began negotiating a new agreement. During the course of these negotiations and the [**9] drafting of the new agreement, MO was not represented by counsel. CEI had in-house counsel, Cynthia Wicker, who was involved in putting together the new agreement. On March 14, 1986, Noel Callahan and other CEI representatives met with Harry Stine and his wife Molly at a hotel near the Des Moines Airport. Callahan brought the final typed agreement with him. After making some handwritten amendments, Stine and Callahan signed the 1986 agreement that provided that CEI and MO would develop, test, and produce soybean varieties.

B. Terms of the 1986 Agreement

The 1986 agreement significantly added to and amended the 1982 agreement. Many of these amendments form the basis of this lawsuit and, therefore, demand attention. While the 1982 agreement provided that ownership of any developed varieties would remain with the originating party, the agreement failed to define the term "originating party." The 1986 agreement retained the 1982 provision, and defined originating party to mean "the party who does the first year tests, (Year 3 -- Schedule A) and second year tests (Year 4 -- Schedule A) and the party who acquires any lines from outside sources." § 1(c), 2(b), CEI App. A8. As well, the 1986 agreement added clauses to the 1982 agreement's exclusions section. Under the 1986 agreement, CEI and MO now possessed the power to delete, and therefore exclude, lines from the program if CEI or MO had developed the line. § 10(c), CEI App. A11.

The most significant change under the 1986 agreement is section four entitled Private Label Soybean Licensing Agreement. In 1983, MO began restricting the use of their soybean seeds.[3] Section 4(a). of the 1986 agreement provided that "CEI and MO shall sign Private Label Soybean Licensing Agreements as approved by MO and CEI with all participating seed companies and seedsmen." Section 4(b). attached MO's Limitation of Warranty and Seed Purchase Agreement to the 1986 agreement and provided that this document would apply to all MO developed seeds and that the principles therein would be incorporated into the private label agreements described in § 4(a). Under the Seed Purchase Agreement, recipients of MO seeds were limited in their use

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[3] CEI began restricting its germplasm in 1991.

of the seeds for feed or processing. The agreement expressly prohibits using MO seeds "for seed, breeding, or any variety improvement purposes." The Seed Purchase Agreement also contained a liquidated damages clause of ten dollars per bushel for each bushel of seed used or sold in violation of the seed purchase agreement. Section 4(b) of the 1986 agreement excepted CEI "from the restrictions of the Seed Purchase Agreement for purposes of making A x B crosses (not back crosses or biotechnical alterations) if such resulting populations are available for use by MO and subsequent lines selected from the populations are marketed under the terms of [the 1986] agreement." CEI App. A9.

C. The Present Dispute

Initially, the parties breeding program operated as contemplated by the 1986 agreement. MO provided CEI with its various germplasm which CEI used to cross with other seeds. When CEI developed a line MO was provided access to the line, and CEI paid MO a one-third share for sales of CEI originated seeds that contained at least one MO parent. In July 1987, however, Stine wrote Callahan alleging that CEI had breached the agreement by "entering into contracts with other entities to provide them with soybean seed developed by [MO] without securing approval by [MO] pursuant to Section 4(a) and without including in such contracts the restrictions required by Section 4(b) of the March 14, 1986 Agreement." MO App. 167. In responding to Stine's allegations, Callahan noted that CEI was "implementing the program" of notifying companies of the restrictions in section 4(b) of the 1986 agreement. MO. App. 205.

Over the next three years, CEI made three attempts to have MO modify the terms of the 1986 agreement. In August 1987, Callahan wrote to Stine specifically suggesting an

amendment to section 4(b). Callahan's proposed amendment sought bilateral protection for both CEI developed seeds as well as MO developed seeds under the attached seed purchase agreement. Stine declined the request to amend the agreement. In February 1988, Callahan again wrote to Stine suggesting an amendment to the 1986 agreement. The 1988 letter proposed a new contract that would again create bilateral protection for both CEI developed seeds and MO developed seeds. MO again declined CEI's offer.

In 1988 Rhone-Poulene, a French company, acquired CEI for sixteen million dollars. In a May 1989 internal document pertaining to the CEI/MO contract, Rhone-Poulene's first recommendation on "germplasm policy" was to "Delete present CEI restrictions and have mutual use policy." Mo. App. 154. Shortly thereafter, in June 1989, the President of Rhone-Poulene Ag Company wrote Stine. The letter gave MO the option of discussing either selling out to Rhone-Poulene or amending the 1986 agreement. MO App. 237. CEI then sent MO a formal notice of termination of the 1986 agreement on July 1, 1989, effective in two years. Under the terms of the 1986 agreement, either party could terminate the agreement with two years notice, but the agreement provided that research fees would continue regardless of any termination.

Limagrain Genetics, another French company, acquired CEI in 1994. In 1996, Limagrain conducted a "legal contract review" of the 1986 agreement and determined that it need not pay MO any research fees. MO App. 101, 107, 207. Since acquiring CEI in 1994, Limagrain has marketed seed lines where one or both of the parent seeds was originally obtained from MO to several seed companies for the purpose of breeding new seed varieties without MO's consultation, knowledge or approval. In 1999, CEI's successor Limagrain licensed all soybean germplasm to Soygenetics, L.L.C.

without restriction, and turned over its soybean breeding program to Soygenetics. Limagrain, however, owns thirty-seven percent of Soygenetics.

As noted above, Plaintiff MO originally filed its case in state court in Dallas County, Iowa. Defendant removed the case to federal court under this Court's diversity jurisdiction. Following a discovery phase that would kindly be termed contentious, the parties filed the dispositive motions presently before the Court.

IV. SUMMARY JUDGMENT STANDARD

The purpose of summary judgment is to "pierce the boilerplate of the pleading and assay the parties' proof in order to determine whether trial is actually required." 11 Moore's Federal Practice 3d, § 56.02, pg. 56-20 (Matthew Bender 3d ed. 1997) *(citing Wynne v. Tufts Univ. School of Medicine*, 976 F.2d 791, 794 (1st Cir. 1992), *cert denied*, 507 U.S. 1030, 113 S. Ct. 1845 (1993), 123 L. Ed. 2d 470).

Rule 1 of the Federal Rules of Civil Procedure mandates that all Rules, including Rule 56, "be construed and administered to secure the just, speedy, and inexpensive determination of every action." Accordingly, summary judgment is not a paper trial. "The district court's role in deciding the motion is not to sift through the evidence, pondering the nuances and inconsistencies, and decide whom to believe." *Waldridge v. American Hoechst Corp*, 24 F.3d 918, 920 (7th Cir. 1994). In a motion for summary judgment this Court has but one task, to decide, based on the evidence of record as identified in the parties' moving and resistance papers, whether there is any material dispute of fact that requires a trial. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 249-50, 106 S. Ct. 2505 (1986), 91 L. Ed. 2d 202; 10

Wright, Miller & Kane § 2712, at 574-78. The parties then share the burden of identifying the evidence that will facilitate this assessment. *Waldridge*, 24 F.3d at 921.

Summary judgment is properly granted when the record, viewed in the light most favorable to the nonmoving party and giving that party the benefit of all reasonable inferences, shows that there is no genuine issue of material fact, and the moving party is entitled to judgment as a matter of law. Fed.R.Civ.P. 56(c); *Walsh v. United States*, 31 F.3d 696, 698 (8th Cir. 1994); *City of Columbia*, 914 F.2d 151 at 153; *Woodsmith Publ'g*, 904 F.2d 1244 at 1247. The moving party must establish its right to judgment with such clarity that there is no room for controversy. *Jewson v. Mayo Clinic*, 691 F.2d 405, 408 (8th Cir. 1982).

V. DISCUSSION

In its First Amended and Substituted Complaint, Midwest Oilseed asserts six separate causes of action. Defendant CEI responds with seven separate counterclaims of its own. MO seeks summary judgment both on CEI's liability for breach of the 1986 agreement, and to dismiss all of CEI's counterclaims. CEI's motion asks that the Court vindicate CEI on all counts alleged in Plaintiff's complaint. Although issues abound, the predominant question is a determination of the parties' rights and obligations under the 1986 agreement. Thus, the Court will first address both sides' breach of contract claims. The analysis will then focus on CEI's remaining counterclaims. Finally, the Court will address MO's other claims.

A. Breach of Contract

1. CEI's breach of agreement counterclaim

CEI's first counterclaim alleges that MO breached the 1986 agreement by marketing certain seed lines without paying CEI the research fees it was due under the agreement. MO offers two defenses: first that the majority of the lines identified by CEI are not subject to the agreement's research fee provisions because the lines were not in the elite test phase or already commercialized when the contract was terminated; for those lines that were subject to the payment of research fees, MO argues that it had deleted the lines pursuant to section 10 of the agreement. Upon termination of the agreement, section 9 clearly states that research fees attach to lines in either the first or second year of elite trials under schedule A, or that have already been commercialized. Any lines that had not reached this phase in the breeding process are automatically exempted from the research fees provision. Thus, to the extent that CEI's first counterclaim seeks to recover research fees for exempted lines under section 9 of the agreement, MO's motion for summary judgment [**18] is granted. Summary judgment, however, is improper on the remaining lines.

Section 10 of the agreement does provide either party with the power to delete lines from the purview of the agreement. The agreement, however, offers no indication as to the necessary procedure for deleting lines in the agreement. No written record exists to detail which lines MO might have deleted. As such, the only evidence of any deletions is the deposition testimony of Harry Stine. Any decision based on this evidence involves a weighing of sufficiency and credibility. Such is not the purpose of summary judgment. For those lines that are not automatically excluded by section 9, a

question of material fact remains as to whether MO deleted the lines. Summary judgment is, therefore, denied.

2. MO's breach of contract claim

Midwest Oilseeds argues that it is entitled to summary judgment on count I of its complaint because CEI breached the 1986 agreement by: 1) improperly licensing third-party breeding rights for seeds that owe their lineage to restricted MO seed; and 2) by performing unauthorized breeding itself beyond the A x B crosses stated in the agreement. CEI does not deny any of MO's factual allegations regarding third-party licensing or CEI's breeding practices. Rather, CEI argues that because it owns the first generation seed created from the initial A x B cross with MO seeds, CEI can do with its seeds as it pleases. Thus, the question is one of contract construction.

Iowa law requires that any court exercising its power to interpret the terms of a contract must adhere to a three level hierarchy of interpretation. Most importantly, the Court looks to the words of the contract. If the terms are unambiguous, the Court has no right to substitute a different meaning for that which the parties clearly intended. *See Walsh v. Nelson,* 622 N.W.2d 499, 503 (Iowa 2001) ("after the transaction has been shown in all its length and breadth, the words of an integrated agreement remain the most important evidence of intention."). If the terms are ambiguous, the Court will next consider extrinsic evidence of the negotiations and then the subsequent dealings between the parties. *Id.; Kroblin v. RDR Motels, Inc.,* 347 N.W.2d 430, 433 (Iowa 1984) (reasoning that the trial court properly considered post signing conduct as evidence of parties' intentions). Thus, the Court looks at: 1) the plain language of the contract; 2) the circumstances surrounding the negotiations and execution of the contract;

and 3) the parties' course of dealing following execution of the contract. Applying this analysis to the present case indicates that MO is entitled to an entry of summary judgment as CEI's actions clearly fall outside the bounds of the agreement.

Section 4(a) of the 1986 agreement unambiguously provides that "CEI and MO shall sign Private Label Soybean Licensing Agreements as approved by MO and CEI with all participating seed companies and seedsmen." Equally clear, section 4(b) states:

> The Limitation of Warranty and Seed Purchase Agreement, a copy of which is attached, shall apply to all MO developed seeds and the principles of such shall apply to all MO developed seeds and the principles of such shall be incorporated into the Licensing Agreements referred to in sub paragraph a above. CEI research shall be excluded from the restrictions of the Seed Purchase Agreement for purposes of making A x B crosses (not back crosses or biotechnical alterations) if such resulting populations are available for use by MO and subsequent lines selected from the populations are marketed under the terms of this agreement.

The Seed Purchase Agreement incorporated into section 4(b) provides that the MO "seeds herein sold will be used only for feed or processing and will not be used or sold for seed, breeding or any variety improvement purposes. [...] Purchaser acknowledges [MO's] proprietary interest in the use of subsequent production from the seeds herein sold, and agrees it would be a violation of this agreement to allow the subsequent production of the seed herein sold to be used to create a seed variety or seed product from said production,

which may be used for seed purposes by individuals or entities other than [MO]."

The language of these provisions is eminently clear. MO sought to protect its germplasm as valuable intellectual property. Accordingly, section 4(a) mandates that on all seeds CEI markets that were developed under this program, i.e. seeds containing MO germplasm somewhere in their genetic lineage, CEI must include a MO approved Private Label Soybean Licensing Agreement. Section 4(b) states clearly that the Seed Purchase Agreement applies to all MO developed seeds, and further explains that the principles of this agreement represent the necessary provisions for an acceptable Private Label Soybean Licensing Agreement under section 4(a). Even CEI's representatives admit that the provisions make clear that CEI had to include the use restrictions of the seed purchase agreement. MO App. 73.

In defense of its position, CEI argues that under the terms of the agreement, it was the owner of all seeds for which it was the originating party. As owner, the argument follows, CEI could do as it pleased with any seed lines it developed. This argument belies the plain language of the agreement, the clear intentions and foresight of MO and Harry Stine to protect a valuable commodity, and the basic nature of genetic breeding. Back to the genetics primer above, CEI's argument is essentially, we took MO seeds A and B, crossed them, and got C. Because C is neither A nor B, MO no longer has any claim to the germplasm. What CEI's argument overlooks, however, is that A x B does not equal C. A x B results in AB. AB is fifty percent A and fifty percent B. The entire purpose of section 4(a) and (b) of the 1986 agreement is subverted under CEI's argument. CEI may have owned AB, but the 1986 agreement made clear that ownership did not provide CEI with free reign over the offspring variation. Section 4(b)

makes clear that CEI is bound by the terms of the Seed Purchase Agreement except when performing A x B crosses and only so long as CEI made any resultant populations available to MO, and marketed any selected lines gleamed from the A x B cross in accordance with the agreement. Not only do these provisions limit CEI's ownership rights, they all but negate the significance of ownership. CEI may not like this aspect of the contract, in fact they tried three times to amend the agreement, but the clear reality is that MO provided CEI with a limited license to breed with its seeds. To suggest that CEI could make one cross, whereby the resulting germplasm consists entirely of MO genetic material, and eliminate all use restrictions of MO's painstakingly developed genetically bred germplasm is not realistic nor within the realm of common sense. MO was protecting valuable genetic information. It has a right to protect this information regardless of who owns the end product in which the code resides. Sections 4(a) and (b) of the 1986 agreement sought to ensure that MO's germplasm would not be revealed or given to its competitors. CEI had an opportunity to negotiate for greater bilateral protection and use of the resultant seeds. It did not do so.

Under the terms of the 1986 agreement, any transfer of seeds with MO germplasm in their genetic lineage required CEI to include an agreement restricting the use of the seeds as described in the seed purchase agreement. Any CEI transfers of seeds with MO germplasm anywhere in their genetic lineage that did not include a use restriction similar to the Seed Purchase Agreement breached the 1986 agreement and the Seed Purchase Agreement incorporated therein. As well, any use of MO germplasm, by CEI, beyond the A x B cross specifically described in section 4(b) of the 1986 agreement further violated the agreement. As CEI freely admits to both

of these activities, MO's motion for summary judgment on count I of its complaint for breach of contract is granted.

The extent of CEI's breach is a factual question that must be resolved at trial. That said, the Court finds the ten dollar per bushel liquidated damages clause stated in the Seed Purchase Agreement to be a reasonable attempt by MO to predict the loss it might suffer if its valuable germplasm were divulged to its competitors. The liquidated damages clause was clearly stated in the Seed Purchase Agreement that attached to the 1986 agreement. CEI negotiated with MO over the details of the 1986 agreement. If CEI believed the damage clause unreasonable, the negotiating period before signing the contract would have been a proper time to raise this objection. Damages for CEI's breach of the agreement are set at ten dollars per offending bushel sold or otherwise transferred.

B. MO's motion for summary judgment on CEI's counterclaims

In addition to its breach of contract counterclaim, CEI alleges six other causes of action. None of these counterclaims have merit. CEI's second and third counterclaim seek to recover any research fees that CEI had paid MO in the past on theories of mistake of fact and unjust enrichment. CEI argues that it erroneously paid MO research fees under the agreement for several years, and just recently discovered its faux pas. CEI's argument, however, repeats the same defense as in MO's breach of contract action, that CEI owned the resultant offspring variations, and, therefore, had free reign over the seed. As explained above, this argument fails. Accordingly, MO's motion for summary judgment on CEI's second and third counterclaims is granted.

CEI's fourth, sixth, seventh, and eighth counterclaims allege that MO improperly used, transferred, marketed or bred with CEI owned germplasm. The 1986 agreement contains no provisions to protect CEI germplasm. The agreement provided that MO would provide CEI with its seeds for CEI to conduct breeding experiments. CEI had no policy to protect its seeds until 1991. Accordingly, MO was within its rights to do as it pleased with CEI developed germplasm. MO's motion on CEI's fourth, sixth, seventh, and eighth counterclaim is granted.

C. CEI's motion for summary judgment

CEI's motion for summary judgment challenges all of MO's stated claims and the liquidated damage clause under the Seed Purchase Agreement. The Court has already held that CEI is liable for breach under count I of Plaintiff's complaint, and that the liquidated damage clause is a reasonable measure of damages. These portions of CEI's motion are, therefore, denied.

CEI also asks the Court to dismiss MO's breach of contract claim for want of damages. CEI argues that because MO was late in responding to a request for admission regarding damages MO suffered as a result of CEI's breach of contract, MO has "judicially admitted that it did not suffer any damages." CEI Brief 13. CEI cites Fed.R.Civ.P. 36(a) which provides "the matter is admitted unless, within 30 days after service of the request [...] the party to whom the request is directed serves upon the party requesting the admission a written answer or objection..." CEI argues that MO was twenty days late in responding to the following admissions. "Request 10: Midwest did not suffer any actual damages from any breach of the Agreement alleged by Midwest in this action. Request 11: Midwest does not have any evidence that

it lost sales, revenues, or profits due to any breach of the agreement alleged by Midwest in this action." CEI Brief 14. The Court first questions whether such admissions would ever result in any useful information. Second, the Court notes that CEI's argument overlooks Fed.R.Civ.P. 36(b) which provides that a Court permit withdrawal or amendment of an admission "when the presentation of the merits of the action will be subserved thereby and the party who obtained the admission fails to satisfy the Court that withdrawal or amendment will prejudice that party in maintaining the action or defense on the merits." CEI was not prejudiced by MO's late admission, for which MO had obtained an extension, and CEI has not made any effort to show how it would be prejudiced if any such admission were amended. The merits of the action, however, would be utterly subserved by throwing out MO's claim at this stage of the case because of a late response to a request for admission almost a year ago. CEI's motion for summary judgment on MO's breach of contract claim for failure to state damages is denied.

CEI argues that MO's claim for conversion is lacking because MO lacked a superior right to possession over CEI seeds. CEI, however, breached the 1986 agreement. Thus, if CEI produced an illicit line in violation of the agreement, CEI did not own the seeds it produced, MO did. As well, the basis of the claim again lies in the germplasm, not the seeds themselves. The value of the entire operation is the germplasm's genetic code. Genetic information can be property, and, [*954] therefore, can form the basis for a common law conversion claim. *See Pioneer Hi-Bred Int'l, Inc. v. Holden Foundation Seeds, Inc.,* 1987 U.S. Dist. LEXIS 18286, 1987 WL 341211 (S.D. Iowa 1987), *aff'd on other grounds,* 35 F.3d 1226 (8th Cir. 1994); *Del Monte Fresh Produce Co. v. Dole Food Co., Inc.,* 136 F. Supp. 2d

1271, 1294 (S.D. Fla. 2001). CEI's motion for summary judgment is denied on MO's conversion claim.

As with MO's conversion claim, CEI argues that MO's trade secret claim fails as a matter of law because CEI owned the varieties at issue. Again, where CEI has breached the agreement that provided it the right to breed with MO's germplasm, CEI's argument fails. Summary judgment on MO's trade secret claim is denied.

CEI correctly asserts that injunctive relief is not a cause of action. To the extent that MO has pleaded injunctive relief as a cause of action in count IV, CEI's motion for summary judgment is granted. The Court retains within its equitable power, however, the right to order injunctive relief if the need arises. As well, CEI is correct that MO's request to enter final judgment with the possibility of more recovery fails under the law. A final judgment is just that, final. All damages arising out of the dispute between the parties must be included in the judgment. Thus, CEI's motion is granted insofar as MO has prayed for relief beyond the power of this Court. CEI, however, has also challenged MO's right to receive punitive damages under its conversion and trade secrets claims. This challenge also lies outside this Court's power. Whether MO is entitled to punitive damages for its conversion and trade secrets claim is a factual question to be determined when factoring all aspects of the final judgment.

VI. CONCLUSION

Plaintiff Midwest Oilseeds' motion for summary judgment on count I of its complaint is granted. Damages for the breach will be determined in accordance with the liquidated damage clause of the Seed Purchase Agreement in trial at a later date. Plaintiff's motion for summary judgment on all counterclaims

is denied with regards to Defendant's first counterclaim for breach of the agreement, and granted on all other counterclaims. Defendant's motion for summary judgment is granted on counts IV and V of Plaintiff's complaint, asserting injunctive relief as a cause of action and seeking a less than final judgment. Defendant's motion is denied on all other counts.

IT IS SO ORDERED.

Dated this 4th day of November, 2002.

/s/_____
ROBERT W. PRATT
U.S. DISTRICT JUDGE

APPENDIX D

Excerpts of Brief of Appellant filed in the United States Court of Appeals for the Eighth Circuit

dated June 16, 2003

Midwest Oilseeds, Inc. v. Limagrain Genetics Corporation, formerly known as Callahan Enterprises, Inc.
No. 03-2089

* * *

pp.67-72

[p.67]

VI. The Court Erred in Summarily Awarding Damages of $10/Bushel

Even assuming a breach, Midwest lost only its share of fees (or royalties) that it would have received. (JA226[18], 227[29-30]). The record of this case demonstrates that Midwest's actual loss could be no more than about $2 million. The jury found that Callahan was entitled to $1.8 million in damages for Midwest's failure to share fees with Callahan on 4,243,742 bushels of seed that Midwest had licensed (i.e., $0.4266 per bushel). (T420). On the other hand, Midwest obtained damages for 3,883,346 bushels – 360,396 bushels less than Callahan's claim. (Add.1). Thus, the fee value of Midwest's loss would unlikely be more than Callahan's loss. However, even if doubled, Midwest's damages would not exceed $4 million. The difference between that $4 million in

actual damages and the $39 million damage award is that the district court summarily ruled that damages would be calculated at $10/bushel, based on the damage clause in the SPA. The court did so, even though Midwest did not move for summary judgment on damages, and the only issue presented was Callahan's motion to dismiss Midwest's asserted damages because Midwest could not rely on the SPA clause as a matter of law.

"Under Iowa law ... the nonbreaching party's recovery is limited to the loss [p.68] he has actually suffered by reason of the breach; he is not entitled to be placed in a better position than he would have been in if the contract had not been broken." *Midland Mut. Life Ins. Co. v. Mercy Clinics, Inc.*, 579 N.W.2d 823, 831 (Iowa 1998) Therefore, the courts are required to carefully assess any alleged liquidated damages clause in an agreement to determine its enforceabilty. In *Rohlin Constr. Co. v. City of Hinton*, 476 N.W.2d 78 (Iowa 1991), the Court held: "The central objective behind the system of contract remedies is compensatory, not punitive." It adopted §356 of the Restatement (2d) of Contracts (1981) as the standard for enforcement of a contractual damages clause:

> Damages for breach by either party may be liquidated in the agreement but only at an amount that is reasonable in the light of the anticipated or actual loss caused by the breach and the difficulties of proof of loss. A term fixing unreasonably large liquidated damages is unenforceable on grounds of public policy as a penalty.

Rohlin, 476 N.W.2d at 80. *See also Engle v. Vernon*, 215 N.W.2d 506, 515-16 (Iowa 1974) (liquidated damages of $50.00 per day constituted an improper penalty where the

evidence showed lost revenue was only $3.00 to $4.00 per day).

In granting summary judgment that the damage clause will be applied, the court did not address the *Rohlin* criteria. Instead, the court cited only that the "parties negotiated the terms of the contract in 1986. If Callahan objected to the [p.69] clause ... Callahan had an opportunity to negotiate a different term." (Add.17). This is factually incorrect and legal error.

Both sides agreed that they never discussed the SPA's $10/bushel penalty clause, except that, as Harry Stine reported, "someone in [the Callahan] system didn't think that this was the right thing to do." (JA239[105], 191[103-04]). There was no reason for Callahan to even consider the penalty clause, because the SPA would not apply to its activities.

The court's rationale is legally irrelevant. Every damage clause in a contract is, by definition, something the parties agreed to when they signed the contract. But, under Iowa law, a contractual damage clause must be still be evaluated to determine if it is reasonable liquidated damages clause or an unenforceable penalty . The district court did not do so.

Callahan presented significant unrebutted evidence that the $10/bushel was unenforceable, none of which the court addressed.

First, the penalty clause is unenforceable, because the parties never specifically agreed to, or even discussed, the $10/bushel penalty clause as reasonable liquidated damages. *S.O.G.-San Ore-Gardner v. Missouri Pacific RR. Co.*, 658 F.2d 562, 570 (8th Cir. 1981) (damages clause unenforceable because parties had not negotiated it as a "reasonable forecast

of just compensation."). [p.70] Indeed, the clause is not even labeled as "liquidated damages," but appears to be a penalty designed to scare farmers from "brown-bagging." (JA124[58-59], 126-27[68-69]). There was also no relationship between the nature of damages that may arise from the Midwest-Callahan relationship, and the types of damages arising if other differently-situated parties breached Midwest's SPA.

Second, *Rohlin* struck the agreed-upon damage clause in the parties' contract because it was not validly justified by any contemporaneous study or analysis of potential damages. Here, similarly, Midwest cannot explain how the number was derived, much less justify it by any contemporaneous study or data. JA235(75-76), 237-38(92-94), 239(105). *See also Elzey v. City of Winterset*, 154 N.W. 901, 904 (Iowa 1915) (record must show what loss was in the minds of the parties when they entered into the liquidated damages clause).

Third, as in *Rohlin*, the $10/bushel was objectively unreasonable, in view of both then-anticipated and actual damages.

- The SPA clause, by its plain terms, does not relate to the liability situation here. The SPA damages clause is written with the assumption that the Midwest seeds were improperly multiplied or used for breeding. Here, Callahan had the right to use the Midwest seeds for breeding, and the damages involve later generations of Callahan seeds. That demonstrates that $10/bushel had no reference [p.71] to actual damages here.

- In 1986, the typical fee per bushel of Midwest seed was about $0.45 to $0.75 per bushel, with one special seed at $0.90 per bushel, before volume discounts. (JA230[45],

312). The $10/bushel could not be supported as an expected actual loss.

- Midwest licensed Pioneer to breed with Midwest seeds in return for fees of $0.25/bushel for first generation seeds and nothing for second generation seeds. (JA849-50, and 894-95, 897 [Midwest admission of fact 93]).

- In the period of 1990 through 1998, Midwest's seeds averaged fees of only about $0.79 to $0.95/bushel, before deducting commissions. Thus, the $10/bushel did not correlate to any actual loss by Midwest. (JA535-37).

Fourth, the SPA $10/bushel clause fails the final "difficulties of proof of loss" *Rohlin* requirement. Soybean breeders necessarily keep accurate records of their breeding. (T43). Midwest had no problems tracing any of its seeds through Callahan or Callahan's licensees.

Finally, the $10/bushel is applied solely to "each bushel so used." (Add.83). That requires Midwest to identify and calculate all the "breaching" bushels of seed, and then the clause applies the $10.00/bushel penalty. Yet, once Midwest identifies the "breaching" seed, there is no reason that the actual damages are not to [p.72] be applied for that "breaching" seed. Consequently, the liquidated damages clause does not abate any "difficulties of proof of loss." The clause simply and improperly demands that damages be calculated at $10/bushel rather than by the actual damages per bushel. Other courts, which like Iowa follow the Restatement, generally hold that this, by itself, is sufficient to render liquidated damages clauses unenforceable. *Phillips v. Phillips*, 820 S.W.2d 785, 789 (Tex. 1991); *Burlington Northern & Santa Fe Rwy Co. v. Dakota Valley Mills*, No. A3-00-145, 2002 WL 1483881, *5 (D.N.D. Mar. 27, 2002).

The $10/bushel is not compensatory, as the law requires, but is punitive to Callahan and an unjust and unearned windfall to Midwest. It should have been held unenforceable as a matter of law.

If the above are not sufficient to render the SPA damage clause unenforceable as a matter of law, there are at least triable issues that were improperly dismissed without any explanation. The district court's summary grant of the damages claim–even though Midwest had not moved for summary judgment on it–is unsupportable. Citing only a legally irrelevant consideration, the court effectively granted Midwest over $35 million in additional damages without any required review. That was error.

* * * *

APPENDIX E

Excerpts of Reply Brief of Appellant filed in the United States Court of Appeals for the Eighth Circuit

dated August 19, 2003

Midwest Oilseeds, Inc. v. Limagrain Genetics Corporation, formerly known as Callahan Enterprises, Inc.
No. 03-2089

* * *

pp.30-35

[p.30]

V. The Court Erred in Summarily Awarding Damages of $10/Bushel

The court erred as a matter of law in summarily awarding damages of $10/Bushel solely because Callahan had signed the contract, and without conducting the reasonableness analysis required by Iowa law under *Rohlin Constr. Co. v. City of Hinton*, 476 N.W.2d 78 (Iowa 1991). (Blue Br. 67-69). Midwest recognizes that the district court's rationale is contrary to law, and tries to postulate an alternative basis that the $10/Bushel penalty is justified by the difficulty of proof of loss and the alleged considerable harm suffered by Midwest. The problem with Midwest's arguments are manifold.

A. No Evidence Supports Midwest

Midwest's defense rests entirely on its paid putative expert, Blake Seiker. This is improper. Not only did the court never refer to Seiker's testimony, but Callahan filed two motions *in limine* to exclude Seiker's testimony on grounds that it was incompetent, based on plainly false assumptions of facts and law, and otherwise failed to meet the standards of expert testimony under the *Daubert v. Merrell Dow Pharmaceuticals*, 509 U.S. 579 (1993) line of cases. (CR174-177).

The district court ruled that "[i]n light of the Court's holding, that, as a matter of law, the liquidated damages clause is enforceable, Defendant's motions are moot and, therefore, denied." (Add.24). Thus, the district court never considered, and [p.31] could not have considered, the testimony now pressed by Midwest, because the court would have had to first consider the admissibility of Seiker's report, which it refused to do.

B. Midwest Relies On Admittedly Bogus Evidence

Midwest cites Seiker to represent in its brief that:

> [I]t is undisputed that MO and [Monsanto/Asgrow] recently entered into a voluntary agreement under which [Monsanto/Asgrow] agreed to retroactively pay MO $12.50 for each unit . . . of seed sold containing an MO seed in the pedigree (JA 863, 889). Evidently, that sophisticated company believed that $12.50 per unit sold reflected the value of the germplasm it had misappropriated. (JA 844).

(Red Br. 62-63). It is surprising to see this representation in an appellate brief, because Midwest had conceded its falsity in the district court. Midwest had cited Seiker for the very same argument in its brief in the district court, opposing Callahan's summary judgment motion. (CR127 at 24). In reply, Callahan demonstrated that the plain terms of cited Midwest-Asgrow agreement relied on by Seiker required Asgrow to pay the $12.50 only for "Commercialized Varieties on which a technology fee was charged"—i.e., Roundup Ready® soybeans. (JA863; CR130 at 10-11, 131 at 12-13). Midwest's above representation was and is false, because in its agreement Midwest released all claims relating to an indeterminable [p.32] number "of seed sold containing an MO seed in the pedigree," and Monsanto/Asgrow paid a $12.50 fee for only the few Roundup Ready® bushels. *Id.* Monsanto/Asgrow's approximate payment per bushel of Midwest's seeds could have been as little as one cent per bushel, and certainly was not $12.50. *Id.*

At the subsequent oral argument, Midwest's counsel admitted that Monsanto/Asgrow only paid "$12.50 per bushel sold of Roundup Ready varieties" (CR166 at 34), and, thus, admitted that its prior representation in the brief and Seiker's report—the same representation as made here—was wrong. The error in Midwest's brief was further reaffirmed when the district court itself questioned Midwest's $12.50/Bushel argument. (CR166 at 89, 90-91). The district court thereafter never cited the $12.50 or any other portion of Seiker's report in its summary judgment decision.

It is most surprising, therefore, to see Midwest's appellate brief repeat the very same misrepresentation which Midwest admitted was wrong and corrected in the district court, and then to additionally represent that this "is undisputed." Midwest vividly discredits its entire brief.

[p. 33]

C. Midwest Other Arguments are Unsupported Speculation and Legally Irrelevant

Midwest's other arguments, all of which rest on Seiker's error-filled expert report, do not support the judgment below. Some indicia of Midwest's errors are as follows:

- *Rohlin* and the cases from other jurisdictions favor legitimate liquidated damages clauses that meet legal standards, not an unreasonable penalty reflected in Midwest's SPA.

- *Rohlin* requires that an enforceable liquidated damages clause reasonably estimate actual or anticipated damages. Mere difficulty of calculating damages, even if true, does not obviate the need to determine reasonableness. Taken to its logical extreme, Midwest argues that it could have put $1,000,000/Bushel in the SPA, and then enforce the penalty because actual or anticipated damages are allegedly hard to calculate. That is not the law. It has to be a reasonable figure.

- The district court did not determine reasonableness. Its analysis—so obviously faulty that Midwest does not even try to defend it—was that the liquidated damages provision was enforceable as a matter of law simply because the parties had agreed to it. (Add.17).

[p.34]

- Midwest cannot show that the $10/Bushel figure is reasonable. No record supports Midwest's argument

that it even sells any soybeans, much less that it makes $10.00/Bushel in any such sales. (Red Br. 63).

Midwest only licenses its seeds. (JA226[17-18]).

- After the Agreement was executed, Midwest licensed its varieties for breeding with no restriction on future breeding for free or royalty amounts significantly less than $10/Bushel. (Blue Br. 71). This is direct evidence that $10/bushel is not a reasonable figure.

- Midwest did not suffer a loss of "germplasm." Midwest gave away all its vaunted "germplasm" to its competitors for breeding without any restrictions, including the two parents of CM428. (Blue Br. 21-23, 71; JA644).

- Midwest cannot argue that Callahan's contribution of its assets to Soygenetics precluded recovery, since Midwest already recovered for soybean production through the 2002 growing season, or two years after Callahan's contribution to Soygenetics. Further, Midwest is presently suing Soygenetics and demanding the same $10/Bushel penalty from Soygenetics. *See* pp. 5-6, *supra*.

[p.35]

- No evidence, except Seiker's incompetent report, supports Midwest's argument that it is difficult to trace any Callahan seed.

Midwest's arguments are contrary to law, because liquidated damages are permitted only if they reflect actual or anticipated harm.

Finally, even if not unenforceable as a matter of law, the district court could not resolve fact issues relating to reasonableness on summary judgment.

* * * *

APPENDIX F

Rule 56. Summary Judgment

(a) For Claimant.
A party seeking to recover upon a claim, counterclaim, or cross-claim or to obtain a declaratory judgment may, at any time after the expiration of 20 days from the commencement of the action or after service of a motion for summary judgment by the adverse party, move with or without supporting affidavits for a summary judgment in the party's favor upon all or any part thereof.

(b) For Defending Party.
A party against whom a claim, counterclaim, or cross-claim is asserted or a declaratory judgment is sought may, at any time, move with or without supporting affidavits for a summary judgment in the party's favor as to all or any part thereof.

(c) Motion and Proceedings Thereon.
The motion shall be served at least 10 days before the time fixed for the hearing. The adverse party prior to the day of hearing may serve opposing affidavits. The judgment sought shall be rendered forthwith if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law. A summary judgment, interlocutory in character, may be rendered on the issue of liability alone

although there is a genuine issue as to the amount of damages.

(d) Case Not Fully Adjudicated on Motion.
If on motion under this rule judgment is not rendered upon the whole case or for all the relief asked and a trial is necessary, the court at the hearing of the motion, by examining the pleadings and the evidence before it and by interrogating counsel, shall if practicable ascertain what material facts exist without substantial controversy and what material facts are actually and in good faith controverted. It shall thereupon make an order specifying the facts that appear without substantial controversy, including the extent to which the amount of damages or other relief is not in controversy, and directing such further proceedings in the action as are just. Upon the trial of the action the facts so specified shall be deemed established, and the trial shall be conducted accordingly.

(e) Form of Affidavits; Further Testimony; Defense Required.
Supporting and opposing affidavits shall be made on personal knowledge, shall set forth such facts as would be admissible in evidence, and shall show affirmatively that the affiant is competent to testify to the matters stated therein. Sworn or certified copies of all papers or parts thereof referred to in an affidavit shall be attached thereto or served therewith. The court may permit affidavits to be supplemented or opposed by depositions, answers to interrogatories, or further affidavits. When a motion for summary judgment is made and supported as provided in this rule, an adverse party may not rest upon the mere allegations or denials of the adverse party's pleading, but the adverse party's response, by affidavits or as otherwise provided in this rule, must set forth specific facts showing

that there is a genuine issue for trial. If the adverse party does not so respond, summary judgment, if appropriate, shall be entered against the adverse party.

(f) When Affidavits are Unavailable.
Should it appear from the affidavits of a party opposing the motion that the party cannot for reasons stated present by affidavit facts essential to justify the party's opposition, the court may refuse the application for judgment or may order a continuance to permit affidavits to be obtained or depositions to be taken or discovery to be had or may make such other order as is just.

(g) Affidavits Made in Bad Faith.
Should it appear to the satisfaction of the court at any time that any of the affidavits presented pursuant to this rule are presented in bad faith or solely for the purpose of delay, the court shall forthwith order the party employing them to pay to the other party the amount of the reasonable expenses which the filing of the affidavits caused the other party to incur, including reasonable attorney's fees, and any offending party or attorney may be adjudged guilty of contempt.